SEFO

SPANISH AND INTERNATIONAL
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Spain's bumpy post-COVID-19 recovery

funcas

WHAT MATTERS

Spain's sluggish **post-pandemic recovery**

Spain's recent performance implementing the **recovery funds** and outlook for 2022

Lagging productivity and the need for structural reforms in Spain

Cryptoassets: The good, the bad and the advent of CBDCs

The pandemic and its impact on **the insurance business** in Spain

Spain's budget for 2022: An assessment

Social Security budget for 2022: Short-term state support yet a need for structural reform

Fiscal imbalances in Spain: Progress and risks

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SEFO

SPANISH AND INTERNATIONAL
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Letter from the Editors

The pervasiveness of supply bottlenecks, which are hitting the advanced economies particularly hard, along with escalating energy costs, are acting as a drain on the global economic recovery, while intensifying inflationary pressures. Another source of weakness is the bursting of the property bubble in China. All of which has prompted the IMF in its Autumn report to cut its growth forecasts and raise its inflation estimates for 2021. Indicators suggest that these trends will persist in the short-term.

The US economy is proving to be one of the hardest hit by these bottlenecks, with headline CPI increasing in October. However, the European economy is also suffering, with inflation up largely due to the rise in electricity and fuel prices.

Within this context, the November issue of *Spanish and International Economic & Financial Outlook (SEFO),* first gives an updated snapshot of: the status and prospects for the economic recovery in Spain; progress to date on the execution of Next Gen EU funds; and, a closer look into Spain's lagging productivity – affecting the country's recovery and putting a drag on GDP per capita.

Recent indicators point to a post-COVID-19 recovery in Spain, which is not as vigorous as predicted: growth is projected to reach 5.1% in 2021, compared to 6.3% in the Summer forecast. Leaving aside statistical oddities, under-performance mainly reflects weaker-than-expected domestic demand, which is only partially offset by stronger export growth. Inflation, which has eroded household and business purchasing power, is another key factor at work. The long delay in the implementation of investment projects funded from European transfers has also slowed the economic rebound *vis-à-vis* original expectations.

Spain's Recovery, Transformation and Resilience Plan (the Plan), approved by the European Commission in June, will mobilise up to 140 billion euros of funds. Spain is currently in the process of implementing the first tranche, in the amount of 69.53 billion euros – transfers from the Recovery and Resilience Facility (RRF). Although execution of the investments contemplated under the Plan will last until 2026, 70% of the RRF funds have to be committed in 2021–2023. That means there is little more than two years left for highly ambitious commitments to materialise. Based on the budget breakdown contemplated in the Plan for 2021 and the information gleaned from the tenders published up until October (inclusive), a significant volume of funds still needs to be executed before the end of the year. Furthermore, execution levels across the various Plan drivers and components are proving uneven. Nevertheless, any RRF funds that are not executed in 2021 will be

rolled into next year's budget. The general state budget for 2022 contemplates 26.9 billion euros of investments under the Plan. That sum implies stepping up the pace of investments and reforms by over 10% by comparison with 2021.

For the past two decades, Spain's economic growth has been underpinned by the accumulation of factors of production, with productivity undermining growth. In fact, since 2000, total factor productivity (TFP) has fallen by 14.7%, which helps explain why GDP per capita in Spain trails the eurozone average by 18.5%, with productivity per hour worked also lagging by 14.1%. Behind that poor performance in productivity lies scant investment in its determinants, as is illustrated by the fact that Spain lags the European average in variables, such as its stock of technological capital relative to GDP (66.1% lower), its stock of human capital (4.2% lower), its stock of public capital (26.6% lower per capita) and its stock of productive capital per employee (29.9% lower), among others. The COVID-19 crisis has served to exacerbate Spain's productivity problem, with the loss of work and falling TFP contributing to the marked decline in 2020. In order to reverse this trend, structural reforms alongside the deployment of European recovery funds will be necessary. Among the investments contemplated, those aimed at boosting digitalisation are imperative given the productivity gains associated with digital transformation.

The financial issues addressed in the November *SEFO,* meanwhile, focus on the intensification of the debate around cryptoassets, more broadly their pros, cons, and the prospects for the advent of Central Bank Digital Currencies, or CBDCs. As well, we assess the recovery of the Spanish insurance sector in the aftermath of the pandemic.

Cryptoassets draw admirers and detractors in equal amounts. They are, nevertheless, here to stay and are destined to play a prominent role in the global financial system over the coming decades, as renowned institutional investors and central banks are already acknowledging. However, it is not yet clear which type of asset will prove most dominant. Moreover, there are questions regarding the intrinsic value of a broad number of these assets, with potential risks for their holders and for the stability of the financial system. Here, banks could play an important role. These institutions have a comparative advantage given their experience with financial regulation and would benefit as they transition towards digital service platforms. Central banks are also increasingly considering how they could influence the development of cryptoassets. For example, the ECB is examining a number of options including a system of citizen retail accounts. However, this would have consequences, such as banks' increased reliance on wholesale versus retail funding, with potentially adverse implications for their margins.

In 2020, the insurance sector sustained a real contraction in premium volumes of 1.3% compared to the pre-pandemic trendline growth of close to 3%, with much of this contraction concentrated in advanced economies. The decline in premium volumes in real terms was uneven across the various lines of business, with the life insurance segment falling by close to 4.5% in 2020. However, the non-life insurance business segment managed growth of 1.5%. As a result of this subsector divergence, the non-life insurance business now outweighs the life insurance business. So far this year, momentum in non-life insurance remains strong, with particularly robust growth in the health and multi-risk lines, while the contraction in motor insurance is slowing. Turning to the Spanish insurance sector, signs suggest it is riding out the pandemic's impact with relative ease, with the volumes for non-life recovering faster than initially expected. In this context, the trend in margins will be shaped by what happens to claims, which are expected to normalise. This is, however, based on the assumption that financial market stability continues.

Finally, this *SEFO* closes with an assessment of the 2022 general state budget, including a specific focus on the budget for the Social

Security, together with a discussion over the state of play of fiscal consolidation and the need for structural reforms to achieve budget stability in the medium-term.

There are three key aspects of Spain's state budget for 2022: the underlying macroeconomic forecasts; the public revenue and expenditure projections; and, the resulting deficit. The macroeconomic forecasts assume a 6.9% growth in private consumption, a 12.2% increase in investment, and export growth of 10.3%. However, other institutions have estimated GDP growth that is between 0.4 and 1.5 percentage points lower. In regards the second aspect, an unusually strong growth in revenue will be essential to delivering the forecasted deficit in 2021. The budget contemplates growth in non-financial income of 10.8% in 2022 to 279.32 billion euros. However, in the absence of the Next Generation-EU funds, that growth would narrow to 6.8%. Furthermore, various new taxes have yet to be approved and some of the temporary measures, such as the VAT cut on electricity, could be extended. Rising inflation is anticipated to increase structural spending by at least 8 billion euros in 2022. As for the level of public debt, the government is forecasting a reduction from 120% in 2020 to 119.5% in 2021 and 115.1% in 2022. In the absence of a credible fiscal consolidation plan, there are doubts about the feasibility of the deficit reduction path between 2021 and 2024.

The two main developments in the Social Security budget for 2022 are: (i) the implementation of a new method for revaluation of pensions based on prior-year inflation; and, (ii) growth in state transfers to finance the so-called "undue" expenses being funded by the Social Security and help balance its accounts. Despite the sharp growth in pension spending, the increase in contributions from the state via taxes and the forecast growth in contributors, underpinned by the anticipated economic recovery, are expected to drive a reduction in the nominal deficit to 0.5% of GDP in 2022. However, the shortfall in system contributory revenue relative to expenditure will remain at 1.5% of GDP. Correction of the Social Security's structural deficit in the medium- and long-term will, therefore, require new measures that will necessarily have to combine actions on the revenue side (even after the recently proposed increase in employer contributions) with others on the spending side, with contributory pensions the primary focus of any future reforms.

Spain's 2020 deficit came in at 10.1% of GDP, better than estimated but still topping the EU-27 ranking. Looking forward, there are reasons for optimism such as the Next Generation-EU funds, the recovery in tax collection, and extension of the Stability and Growth Pact escape clause, though these do come with notable downsides. While current forecasts for 2021's deficit are below the government's budgetary plan, the structural deficit could prove a weak spot in the coming years, as it is forecast to reach 4.5% in 2022. Regarding the Stability and Growth Pact, the most likely outcome is a reformist approach, with greater flexibility built around a medium-term debt anchor, a simple expenditure benchmark and a general escape clause. However, Spain cannot wait for the official rewriting of the EU's fiscal rules. As it stands, the country lacks a credible and ambitious medium-term budget strategy. Over the next five years, Spain's public deficit will not fall below 4.2% of GDP, while public debt will still be stuck at close to current levels. Curtailing spending will become even more difficult due to Spain's ageing society, with spending on dependency care, employment, education, health, science and innovation, government, and a fair transition likely to increase.

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What´s Ahead (Next Month)

Month	Day	Indicator / Event
December	2	Social Security registrants and official unemployment (November)
	6	Eurogroup meeting
	10	Industrial production index (October)
	15	CPI (November)
	16	ECB monetary policy meeting
	16-17	European Council meeting
	17	Foreign trade report (October)
	23	Non-financial accounts: Central Government, Regional Governments and Social Security (October)
	23	Non-financial accounts, State (November)
	23	Balance of payments quarterly (3rd. quarter)
	23	GDP (3rd. quarter, 2nd. estimate)
	28	Retail trade (November)
	30	Balance of payments monthly (October)
	30	Preliminary CPI (December)
	30	Quarterly sector accounts (3rd. quarter)
January	4	Social Security registrants and official unemployment (December)
	11	Industrial production index (November)
	11	Financial Accounts Institutional Sectors (3rd. quarter)
	14	CPI (December)
	28	Labour Force Survey (4th. quarter)
	28	Retail trade (December)
	28	GDP (4th. quarter, advance estimate)
	31	Preliminary CPI (January)
	31	Balance of payments monthly (November)

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What Matters

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Spain's economic recovery is proving weaker than initially predicted, with 2021 growth now projected to come in 1.2 percentage points lower than in the previous forecast. Inflation will continue to be a key source of risk, with the potential to further undermine household and business purchasing power.

Raymond Torres and María Jesús Fernández

15 **Spain's recent performance implementing the recovery funds and outlook for 2022**

Spain is set to received 140 billion euros as part of the Next Generation EU funds to facilitate the country's recovery from the COVID-19 crisis, with a focus on the green and digital transitions. So far, progress on executing plans to use these funds has been uneven, with investments and reforms expected to ramp up in 2022.

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25 **Lagging productivity and the need for structural reforms in Spain**

Spanish productivity has lagged both the US and eurozone for the past two decades due to lower investment in key areas, such as technological and human capital, among others. Although the European recovery funds should facilitate investment in areas like digitalisation, structural reforms will also be necessary to boost Spain's productivity growth.

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35 **Cryptoassets: The good, the bad and the advent of CBDCs**

The emergence of cryptoassets provides both risks and opportunities for investors, banks and central banks alike. However, determining the ideal design and regulation of these assets, as well as anticipating any potential risks, will be key to minimizing financial system disruption and maximizing the associated benefits.

Santiago Carbó Valverde and Francisco Rodríguez Fernández

47 **The pandemic and its impact on the insurance business in Spain**

The impact of the pandemic on the insurance industry was significant, if uneven, across both geographies and business lines. While the industry is showing signs of recovery, forecasts are predicated on the normalisation of claims and the continuation of financial market stability.

Ignacio Blasco, Daniel Manzano and Aitor Milner, A.F.I.

57 **Spain's budget for 2022: An assessment**

Spain's state budget for 2022 includes forecasts that appear markedly optimistic in comparison to other institutions' estimates. Despite this, an increase in structural spending is likely, which casts doubt on the government's ability to meet its deficit reduction targets.

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69 **Social Security budget for 2022: Short-term state support yet a need for structural reform**

Thanks to the increase in contributions, the Social Security deficit is projected to fall to 0.5% in 2022. However, the long-term sustainability of Spain's Social Security will require action on both the expenditure and revenue side that goes beyond recent initiatives.

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Spain's 2020 deficit came in better than expected, with analysts' projections for 2021 more favourable than current government estimates. That said, risks relating to an ageing society, an entrenched structural deficit, and a permanent increase in spending mean Spain requires a credible fiscal consolidation plan.

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Spain's sluggish post-pandemic recovery

Spain's economic recovery is proving weaker than initially predicted, with 2021 growth now projected to come in 1.2 percentage points lower than in the previous forecast. Inflation will continue to be a key source of risk, with the potential to further undermine household and business purchasing power.

Raymond Torres and María Jesús Fernández

Abstract: Recent indicators point to a bumpy post-COVID-19 recovery for Spain. After announcing a buoyant initial estimate of 2.8%, Spain's National Statistics Office, the INE, then slashed its second-quarter GDP growth figure to 1.1%. Furthermore, the preliminary estimate of 2% for the third quarter came in lower than generally expected. Some statistical oddities surround these numbers: the adverse trend in private consumption contrasts with the pronounced recovery in domestic tourism, while the the collapse in investment in housing is not consistent with the healthy momentum recorded in the property market. In any case, it seems that Spain's recovery is not as vigorous as predicted: growth is projected to reach 5.1% in 2021, compared to 6.3% in the Summer forecast. This is due to a lower level of private consumption, which is only partially offset by stronger export growth. Inflation, which has eroded household and business purchasing power, may remain relatively high until the Spring.

Introduction

The Spanish economy continues to recover, thanks to the post-COVID-19 rebound, fuelled by Spain's high vaccination rate. Job creation is also a source of good news. Nevertheless, the economic results are falling short of expectations and are less impressive

> “Spain’s lower growth rate compared to its neighbours is attributable not only to the relatively high weight of international tourism, but also to less dynamic domestic demand.”

compared to other European countries. The aim of this article is to analyse the lag in the recovery, discuss the prospects for the year ahead, and highlight the key risks facing the Spanish economy.

Growth falling short of expectations

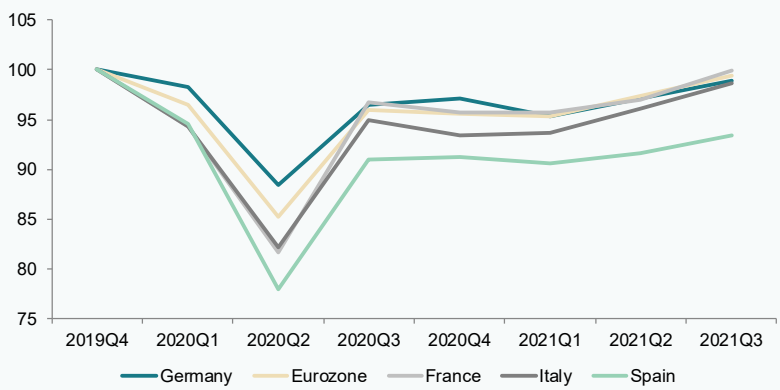
The impact of the pandemic on the collection of statistics is making it harder to interpret Spain’s economic performance this year. After announcing a buoyant initial estimate of 2.8%, Spain’s National Statistics Office, the INE, then slashed its second-quarter GDP growth figure to 1.1%. Furthermore, the preliminary estimate of 2% for the third-quarter came in lower than several analysts expected. It should be noted, however, that the third-quarter figure remains provisional and could still be revised by the INE. It should therefore be interpreted with caution.

Nevertheless, all signs suggest that the recovery is proving more sluggish than expected and much slower compared to the rest of the eurozone. As of the third quarter, eurozone GDP was just 0.5% shy of fourth-quarter 2019 levels, compared to a gap of 6.6% in Spain (Exhibit 1).

Spain’s lower growth rate compared to its neighbours is attributable not only to the relatively high weight of international tourism in the Spanish economy, the variable taking the longest to normalise, but also to the country’s less dynamic domestic demand. More specifically, private consumption actually fell back in the third quarter, while investment in residential construction has been falling sharply for four straight quarters, a real outlier in the European context. Spain’s households set aside extra savings during lockdown, but remain cautious

Exhibit 1 **Spain, at the tail of the eurozone recovery**

4Q19 GDP = 100



Source: Eurostat.

relative to their European peers. Spanish households are holding on to those savings in the face of lingering uncertainty, which has been accentuated by rising inflation trends. Household bank deposits, which had registered disproportionate growth in 2020, continue to increase, albeit at a more moderate rate.

Another contributing factor is the delay in investing the European recovery funds. According to a Funcas tally of the tenders published to date by the various ministries and other central government bodies, the aid approved so far amounts to 840 million euros. Adding in the tenders announced and pending adjudication, the total rises to less than 5 billion euros, which is far from the 27 billion euros budgeted for this year.

Not only has the economy disappointed throughout the first three quarters of the year, the fourth quarter is not looking too promising either. The loss of household purchasing power as a result of higher inflation and the scarcity of supplies in manufacturing are weighing on growth (Exhibit 2). If the third-quarter result is confirmed by the INE, GDP growth this year will come in well below the level expected at the onset of the recovery (in March, the analysts' consensus forecast pointed to growth of 5.9% in 2021 [Torres and Fernández, 2021]) and even below the growth anticipated for the eurozone as a whole (5%, according to the European Commission's forecasts). [1]

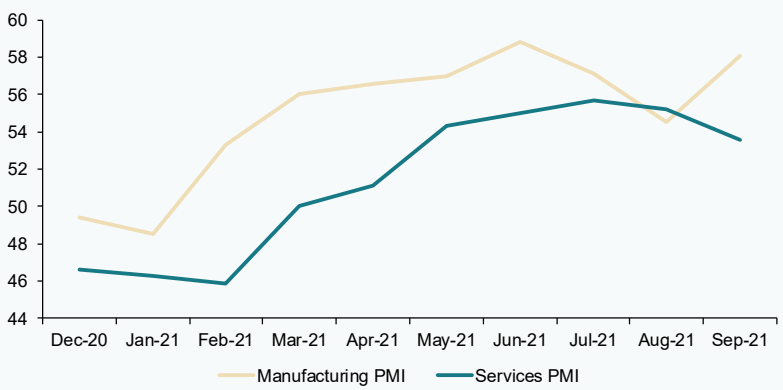
However, that result is still provisional and could be revised substantially. In fact, the adverse trend in private consumption contrasts with the pronounced recovery in domestic tourism, which in the middle months of the year surpassed pre-pandemic levels, and the sharp growth in credit card spending. By the same token, the collapse in investment in housing is not consistent with the healthy momentum in the property market, with house sales at their highest level in 12 years.

The modest recovery in GDP also does not chime with the recovery in employment. The gap in the number of hours worked in 3Q21 *versus* 3Q19 was just 3.5%, almost half compared to the output gap. As for the number of social security contributors, the average for the third quarter, excluding those on furlough and the self-employed on benefits, was just 2.3% below pre-pandemic levels.

Exhibit 2

Bottlenecks are taking the wind out of the recovery

PMI tracking backlogs of work/business outstanding



Source: PMI Markit.

As already noted, one the factors weighing on demand is the sharp pick-up in inflation, which has eroded household purchasing power. [2] Inflation rose steadily throughout the third quarter to reach 5.5% by October, driven by higher energy prices, especially electricity, as well as stronger food prices. Although the core inflation rate has also edged higher, it stood at a relatively subdued 1.4% in October.

Elsewhere, the spiralling cost of commodities and shipping, coupled with parts scarcity, have sent industrial costs rocketing. The growth in the industrial price index reached 23.6% in September, a level not seen since 1977, foreshadowing possible second-round effects on consumer price inflation.

Lastly, on the public finances front, revenue is performing surprisingly well in light of the still-considerable shortfall in taxable income by comparison with pre-pandemic levels. Revenue to August from current-year taxation on income and assets and from social security contributions is considerably above that of the first eight months of 2019, with only VAT receipts trailing slightly. By comparison with 2020, consolidated revenue (excluding the local authorities) was tracking 27 billion euros higher year-on-year. Expenditure, meanwhile, was 2.5 billion euros higher, despite the reduction in benefits from the drop in unemployment and in the number of people on furlough. The combination has driven a 24.5 billion euro reduction in the deficit to 55 billion euros.

Forecasts for 2021 and 2022

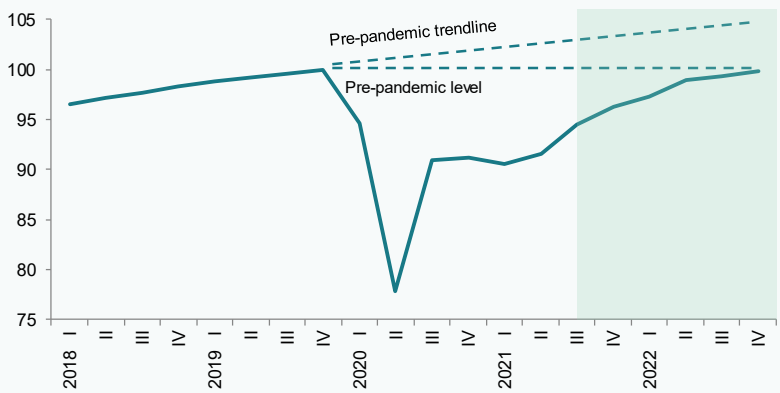
In comparison to our July round, we have cut our forecast for growth in 2021 by a significant 1.2 points to 5.1% (Exhibit 3 and Tables 1 and 2).

The cut stems mainly from a weaker than expected (0.6 percentage points lower) contribution by internal demand to 2021 GDP. Private consumption is the main factor, with households seeing their real income drop as a result of the spike in prices. Disposable income is now expected to stagnate in real terms, whereas we were previously forecasting growth of 1.7%. We are also forecasting lower growth in investment, due to the squeeze on business margins on the back of the rise in

Exhibit 3

Achievement of pre-pandemic GDP levels pushed back to year-end 2022

GDP rebased, 4Q19 = 100



Source: INE and Funcas (forecasts).

Table 1 **Economic forecasts for Spain, 2021-2022**

Annual growth rate of change in percentages, unless otherwise indicated

	Actual data				Funcas forecasts		Change from last set of forecasts (a)	
	1996-2007 average	2008-2013 average	2014-2019 average	2020	2021	2022	2021	2022
1. GDP and components, constant prices								
GDP	3.7	-1.3	2.6	-10.8	5.1	6.0	-1.2	0.2
Final consumption, households and NPISHs	3.7	-2.1	2.2	-12.0	5.0	5.5	-2.6	1.2
Final consumption, general government	4.2	0.9	1.3	3.3	3.7	2.6	1.2	-0.5
Gross fixed capital formation	6.1	-7.6	4.8	-9.5	4.7	8.6	-1.6	-1.9
Construction	5.5	-10.7	4.9	-9.6	0.5	9.3	-3.1	-3.1
Capital goods and other products	7.5	-2.7	4.8	-9.5	9.4	7.8	0.6	-0.9
Exports goods and services	6.5	1.8	4.0	-20.1	12.1	10.8	0.7	-1.1
Imports goods and services	8.7	-4.0	4.4	-15.2	11.4	9.1	0.3	-1.4
National demand (b)	4.4	-3.1	2.6	-8.6	4.8	5.4	-1.2	0.1
External balance (b)	-0.7	1.8	0.0	-2.2	0.4	0.6	0.1	0.1
GDP, current prices: - billions of euros	--	--	--	1,121.9	1,194.8	1,292.5	--	--
- % change	7.3	-0.8	3.4	-9.8	6.5	8.2	-1.1	0.7
2. Inflation, employment and unemployment								
GDP deflator	3.5	0.5	0.7	1.1	1.3	2.0	0.1	0.4
Household consumption deflator	3.1	1.7	0.7	0.0	2.7	2.2	0.2	0.6
Total employment (National Accounts, FTEJ)	3.3	-3.4	2.4	-7.6	4.9	2.0	-1.0	-0.1
Unemployment rate (LFS)	12.5	20.2	18.8	15.5	15.3	14.8	-0.5	0.1
3. Financial balances (% of GDP)								
National savings rate	16.7	18.8	21.7	21.5	21.4	22.5	0.7	0.1
- of which, private savings	13.3	22.9	23.6	28.8	26.9	26.2	0.7	-0.3
National investment rate	26.7	21.7	19.4	20.7	20.8	21.0	0.4	-0.2
- of which, private investment	17.9	17.8	17.3	18.1	18.2	18.4	0.4	-0.2
Current account balance with RoW	-4.5	-2.9	2.3	0.8	0.5	1.7	0.3	0.3
Nation's net lending (+) or borrowing (-)	-3.7	-2.4	2.7	1.2	1.2	3.1	0.2	0.4
- Private sector	-3.8	6.4	6.6	12.2	9.1	9.1	0.2	0.2
- General gov. deficit exc. financial instit. bailouts	-0.9	-8.1	-3.9	-10.1	-7.9	-6.0	0.0	0.2
Public debt according to EDP	52.2	67.6	98.5	120.0	120.4	117.1	1.2	0.2
4. Other variables								
Eurozone GDP	2.3	-0.2	1.8	-6.6	4.9	4.2	0.3	-0.6
Household savings rate (% of GDI)	9.5	8.8	6.7	14.9	10.4	7.3	0.6	-0.5
Household gross debt (% of GDI)	93.3	128.5	101.7	94.4	91.3	87.1	1.3	0.8
Non-financial corporations gross debt (% of GDP)	91.5	133.4	102.8	106.9	99.7	90.5	0.4	-0.8
12-month Euribor (annual average %)	3.74	1.90	0.01	-0.30	-0.49	-0.47	0.0	0.0
10-year government bond yield (annual average %)	5.00	4.74	1.58	0.38	0.32	0.58	-0.1	0.1

(a) Percentage-point change between the current estimates and the last set of forecasts.
(b) Contribution to GDP growth in percentage points.
Sources: 1996-2020: INE and Bank of Spain; Forecasts 2021-2022: Funcas.

Table 2

Quarterly forecasts for the Spanish economy

Percentage change at constant prices, unless otherwise indicated

Forecasts in yellow

Period		GDP	Private consumption	Public consumption	GFCF	Exports	Imports	Contrib. to growth GDP (1)		Employ. (2)	Unemp. rate
								Domestic demand	External demand		
2014		1.4	1.7	-0.7	4.1	4.5	6.8	1.9	-0.5	1.0	24.4
2015		3.8	2.9	2.0	4.9	4.3	5.1	3.9	-0.1	3.2	22.1
2016		3.0	2.7	1.0	2.4	5.4	2.6	2.0	1.0	2.8	19.6
2017		3.0	3.0	1.0	6.8	5.5	6.8	3.1	-0.2	2.9	17.2
2018		2.3	1.7	2.3	6.3	1.7	3.9	2.9	-0.6	2.2	15.3
2019		2.1	1.0	2.0	4.5	2.5	1.2	1.6	0.5	2.6	14.1
2020		-10.8	-12.0	3.3	-9.5	-20.1	-15.2	-8.6	-2.2	-7.6	15.5
2021		5.1	5.0	3.7	4.7	12.1	11.4	4.8	0.4	4.9	15.3
2022		6.0	5.5	2.6	8.6	10.8	9.1	5.4	0.6	2.0	14.8
Quarter-on-quarter percentege change											Unemp. rate
2020	I	-5.4	-6.2	1.2	-3.0	-8.3	-5.5	-4.3	-1.1	-1.9	14.4
	II	-17.7	-20.0	0.8	-19.9	-32.7	-27.6	-15.2	-2.4	-17.9	15.3
	III	16.8	21.0	1.1	20.6	30.0	26.5	15.4	1.4	16.4	16.3
	IV	0.2	-0.8	1.4	0.6	5.6	4.5	-0.1	0.3	1.1	16.1
2021	I	-0.6	-2.1	0.4	0.1	0.3	0.4	-0.6	0.0	1.0	16.0
	II	1.1	4.6	0.9	-2.2	0.9	4.2	2.0	-1.0	0.0	15.3
	III	3.1	0.9	0.9	3.0	7.2	1.5	1.3	1.9	1.0	15.0
	IV	2.0	0.9	1.2	3.3	2.6	1.0	1.4	0.5	0.4	15.1
2022	I	1.0	0.7	0.4	2.0	3.2	3.0	0.9	0.1	0.5	15.5
	II	1.7	2.5	0.4	2.1	1.6	2.5	1.9	-0.3	0.7	14.7
	III	0.5	1.0	0.4	2.1	0.6	2.5	1.1	-0.6	0.3	14.5
	IV	0.5	0.5	0.4	1.5	0.1	0.8	0.7	-0.2	0.1	14.6
Year-on-year percentage change											
2020	I	-4.3	-5.9	3.5	-5.1	-5.8	-5.3	-4.0	-0.3	-0.6	--
	II	-21.6	-24.3	3.3	-24.3	-38.7	-32.6	-18.7	-2.9	-18.5	--
	III	-8.6	-9.2	4.0	-9.0	-19.8	-15.7	-6.8	-1.8	-5.6	--
	IV	-8.9	-9.2	4.5	-7.2	-16.3	-9.4	-6.3	-2.6	-5.2	--
2021	I	-4.2	-3.5	3.2	-3.2	-10.7	-5.2	-2.2	-2.0	-1.9	--
	II	18.8	23.1	2.6	22.6	41.0	37.0	17.4	1.4	19.4	--
	III	5.4	6.3	2.2	3.2	13.7	12.1	4.7	0.6	4.5	--
	IV	7.4	7.5	2.0	5.6	12.0	7.7	5.9	1.5	3.8	--
2022	I	8.9	8.5	3.0	9.4	17.1	12.7	7.4	1.5	2.8	--
	II	7.5	6.2	3.6	11.7	14.2	11.8	6.7	0.9	2.9	--
	III	4.3	2.0	3.2	11.3	9.8	9.4	4.1	0.2	1.6	--
	IV	2.8	1.1	2.5	9.5	7.3	8.4	3.1	-0.2	1.2	--

(1) Contribution to GDP growth in percentage points. (2) Full-time equivalent jobs.
Source: INE and Funcas (forecasts).

> "Disposable income is now expected to stagnate in real terms, whereas we were previously forecasting growth of 1.7%."

production costs. Conversely, we have revised our forecast for public consumption higher to reflect government spending on staff.

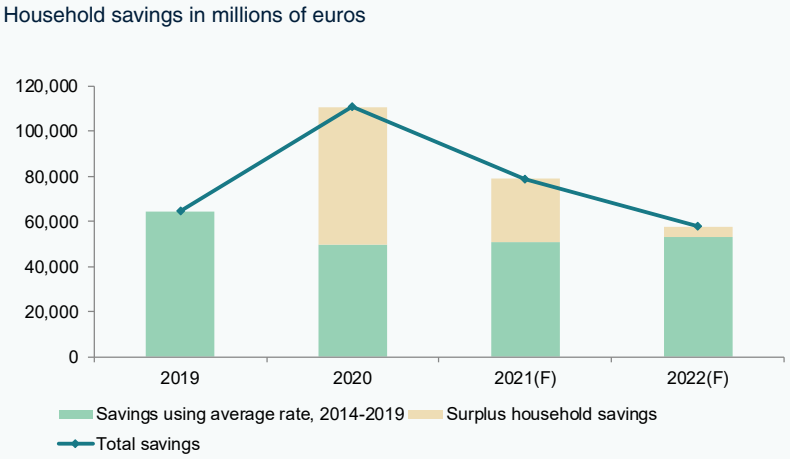
A strong performance in exports should offset the loss of global economic momentum. We are expecting net trade to contribute 0.4 percentage points to GDP growth in 2021, up from 0.3 percentage points predicted in July. We think export growth will continue to top import growth, with Spanish exports gaining market share thanks to strong competitive positioning in the case of goods and non-tourism services and a rebound in tourism towards the end of the year.

In 2022, we are forecasting GDP growth of 6%, up 0.2 percentage points from our July forecast, thanks to two factors. The first, assuming gradual supply chain normalisation, is an easing of the inflationary pressures that are presently eating into household and business purchasing power. The second relates to investment, primarily in construction and, to a lesser degree, capital goods.

Internal demand will be the main driver of growth, contributing an estimated 5.4 percentage points of the total, up 0.1 percentage points from July. We have revised our estimate for private consumption growth considerably upwards, reflecting the carryover to 2022 of some of the release of pent-up demand that was initially estimated for this year (Exhibit 4). The pick up in private spending should also be underpinned by the anticipated growth in household disposable income in real terms (2%, up 2 percentage points from 2021), thanks to the anticipated end of the current bout of inflation as from the spring. Elsewhere, we have layered in the main budget assumptions, which indicate

Exhibit 4

Surplus household savings should continue to fuel spending in 2022



Source: Funcas, based on INE data.

that public consumption will be somewhat less expansionary than anticipated in July. Lastly, we think investment will be the fastest-growing component of domestic demand, buoyed by enhanced implementation of the recovery programme funded from European funds, and an improvement in the gross operating surplus of the business sector (which is expected to return to pre-crisis levels in real terms).

The net positive contribution of international trade is expected to increase to 0.6 percentage points (up 0.1 percentage points from our July forecasts) with a strong performance expected by all export sectors. Overseas tourism should be particularly strong, possibly returning to 90% of pre-crisis levels by year-end 2022.

The higher cost of electricity and other energy costs, coupled with supply chain bottlenecks (*e.g.,* semiconductors, metals and minerals), will continue to shape the trend in inflation. We have revised our personal consumption deflators upwards to 2.7% in 2021 and 2.2% in 2022. Assuming reduced pressure via energy and non-energy costs from the spring, both internal prices (the GDP deflator) and salaries would remain under control and therefore help curb inflationary pressures.

Elsewhere, despite the deterioration in the terms of trade, Spain will continue to present a current account surplus, which is expected to widen as international tourism recovers. Moreover, Spain is expected to receive sizeable sums under the NGEU programme, fuelling a growing net lending position. That outcome reflects the sharp rise in national savings, to record levels in terms of GDP.

The improvement will trickle down to the job market, so that we are now forecasting that employment (in labour force survey terms) will return to pre-crisis levels by the end of 2022. However, the upward trend in the active population will leave unemployment at 14.6% at the end of next year, which is still well above pre-pandemic levels. That estimate assumes that most of the people still on furlough will lose their jobs or leave the labour market.

The recovery will also benefit the budget deficit, thanks to growth in revenue powered by the rebound in economic activity and a reduction in pandemic-related expenditure needs. Meanwhile, the ECB's debt purchases, coupled with low benchmark rates, will continue to alleviate the state's financial burden –even though we are forecasting a gradual increase in Treasury bond yields. Altogether, we are estimating a public deficit of 6% in 2022, which is one percentage point higher than the official budget target. Public debt will also remain extremely high, at close to 117% of GDP.

Risks to the outlook

The rise in production costs is the main risk in the short-term. Should costs remain inflated for longer than we are forecasting (*i.e.,* beyond the spring), households and businesses could face further purchasing power erosion, which would weigh on demand. That scenario should not be ruled out. The upswing in costs could also prove more persistent than anticipated. In addition to the tightness in the gas and electricity markets, we are now seeing a rally in oil prices and euro depreciation against the dollar.

Under such a scenario, the impact on the recovery could be considerable. If the anticipated reduction in energy prices from next spring does not take place, production conditions in numerous sectors would inevitably undergo significant change. Adding

“ In addition to the tightness in the gas and electricity markets, we are now seeing a rally in oil prices and euro depreciation against the dollar. ”

Exhibit 5 **The biggest risk is a protracted increase in commodity prices**

GDP, year-on-year rates of growth in each scenario

Source: Funcas forecasts.

in second-round effects on prices, inflation would reach 2.9% in 2022 (0.7 percentage points higher than in our baseline scenario), constraining the rebound in internal demand. GDP growth would fall back by 0.5 percentage points to an estimated 5.5% (Exhibit 5).

Moreover, if inflation expectations become unanchored, the ECB could feel obliged to tighten monetary policy, which would translate into higher financing costs for the more indebted governments and sectors. In that event, the ECB's protection would become less generous for high-deficit countries like Spain. That said, it is likely that the pre-crisis buyback programme, *i.e.,* the Asset Purchase Programme (APP), will partially compensate for the discontinuation of the Panedmic Emergency Purchase Programme. Spain would still need to place more debt on the market and the yield on Spanish bonds would increase, as would the spread over German bonds. This would come to the fore as the ECB rolls back its purchases, after which the central bank will not be able to purchase more debt than is allowed under the capital key.

While a hypothetical shift in the monetary and financial environments would have adverse consequences on account of the probable increase in the debt service burden, it would also have positive ramifications. Namely, higher inflation would alleviate the weight of the country's public debt in real terms. The net impact will depend on how effective Spanish economic reforms are and the emergence of an investment-friendly climate that facilitates the use of European recovery funds and creation of high quality jobs. That is the best option for boosting the country's potential output.

> "If inflation expectations become unanchored, the ECB could tighten monetary policy, which would translate into higher financing costs for the more indebted governments like Spain."

Notes

[1] Refer to the European Commission (2021).

[2] For an analysis of inflation trends in Spain, see Torres (2021).

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Raymond Torres and María Jesús Fernández. Funcas

Spain's recent performance implementing the recovery funds and outlook for 2022

Spain is set to received 140 billion euros as part of the Next Generation EU funds to facilitate the country's recovery from the COVID-19 crisis, with a focus on the green and digital transitions. So far, progress on executing plans to use these funds has been uneven, with investments and reforms expected to ramp up in 2022.

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Abstract: Spain's Recovery, Transformation and Resilience Plan (the Plan), approved by the European Commission in June, will mobilise up to 140 billion euros of funds. Spain is currently in the process of implementing the first tranche, in the amount of 69.53 billion euros – transfers from the Recovery and Resilience Facility (RRF). Although execution of the investments contemplated under the Plan will last until 2026, 70% of the RRF funds have to be committed in 2021–2023. That means there is little more than two years left for highly ambitious commitments to materialise. Based on the budget breakdown contemplated in the Plan for 2021 and the information gleaned from the tenders published up until October (inclusive), a significant volume of funds still needs to be executed before the end of the year. Furthermore, execution levels across the various Plan drivers and components are proving uneven. Nevertheless, any RRF funds that are not executed in 2021 will be rolled into next year's budget. The general state budget for 2022 contemplates 26.9 billion euros of investments under the Plan. That sum

implies stepping up the pace of investments and reforms by over 10% by comparison with 2021.

Introduction

Implementation of the Next Generation EU (NGEU) funds to counteract the impact of the COVID-19 crisis is underway. Up to 672.5 billion euros (out of a total of up to 750 billion euros) contemplated for 2021–2026, will be disbursed and distributed among the 27 member states via the Recovery and Resilience Facility (RRF). Each country has submitted its recovery plan to the European Commission for subsequent approval by the Council.

In this paper, we analyse the plan presented by Spain and the RRF funds that have been allocated to it, [1] along with the scheduled disbursement timeline. For the disbursement of recovery funds to take place, Spain must meet a series of milestones and objectives outlined in its Plan. To that end, we also analyse in greater detail the progress Spain has made on executing the Plan. Lastly, we identify key aspects of the actions for next year, now that Spain has presented its general budget for 2022, which is still pending approval.

Spain's Recovery Plan and its funding

The European Commission approved the Recovery, Transformation and Resilience Plan presented by the Spanish government on June 16th, 2021. The goal is to boost the social and economic recovery following the impact of the health crisis and amplify the Spanish economy's longer-term growth capacity.

The Plan contemplates the mobilisation of up to 140 billion euros, in keeping with the assignation approved by the European Council for Spain, to finance over 200 structural investments and reforms across the four axes around which the Plan is articulated: green transition; digital transformation; gender equality; and, social and territorial cohesion. The twin green and digital transitions account for 39.7% and 28.2% of the total fund, respectively.

Within the four cross-cutting axes, the Plan is structured into 10 so-called policy levers. Those drivers in turn encompass 30 specific initiatives or components. Each of those initiatives is targeted at a specific objective, addressing the investments and reforms needed to deliver that objective. In order to oversee execution of the Plan as intended, a series of goals and milestones have been set that will trigger disbursements by the European Union. Those milestones will serve to assess the progress and cost of the initiatives for each component and the scale of their impact in terms of the number of potential beneficiaries.

Spain is currently in the process of implementing the first tranche of the 140 billion euros, specifically a sum of 69.53 billion, in the form of non-reimbursable grants (transfers from the RRF). Spain can mobilise another 71.7 billion euros until 2026 which would take the form of loans. The country has not yet applied for those loans (it can do so from next year).

Fund execution will be aligned with the existing distribution of competencies among the various levels of government and in keeping with the spending formalities stipulated in applicable public administration legislation.

Note that even though execution of the investments contemplated under the Plan will be spread out between now and 2026, 70% of

"The goal is to boost the social and economic recovery following the impact of the health crisis and amplify the Spanish economy's longer-term growth capacity."

the RRF funds must be committed between 2021 and 2023. That means there is little more than two years left for highly ambitious commitments to materialise. [2] Additionally, Spain stands to receive 44 billion euros of structural funds during the new European Union budget period 2021-2027, bringing the total to almost 200 billion euros.

A number of milestones and targets condition the disbursement of the recovery funds

Disbursement of the RRF funds depends on delivery of a series of milestones and objectives [3] set for each time interval under the umbrella of the financing agreement struck with the European Commission.

During execution of the Recovery, Transformation and Resilience Plan, Spain will have to attain multiple, interrelated milestones and targets in order to ensure it makes full use of the funds allocated and maximises their impact in terms of supporting the recovery, growth and modernisation of the Spanish economy. Starting from the second half of this year, Spain is due to receive six-monthly disbursements until the end of 2023, subject to delivery of the above-mentioned milestones and targets.

In 2021, Spain received a first payment by way of 'pre-financing' of close to 9.04 billion euros (equivalent to 13% of the 69.53 billion euros of RRF transfers due in total). Before the end of the year it is due to receive its first six-monthly disbursement, in the amount of 10 billion euros, following delivery of the milestones and targets established for the period between February 2020 and June 2021 (with around 100 milestones associated with structural reforms). [4]

Effectiveness of Law 7/2021, of May 20th, 2021, on climate change and energy transition, adoption of the Circular Economy Strategy and of the hydrogen roadmap, approval of the Energy Storage Strategy and of the State Inspection Plan for Cross-Border Waste Transfers, 2021-2026 are a few of the headline milestones reached on the green transition front. In terms of digital transformation, it is worth mentioning the adoption of the Digital Spain 2025 Agenda and within it, approval of: the National Strategy for Artificial Intelligence; the Plan for Connectivity and Digital Infrastructures of Society, the economy and the territories; the Strategy to Promote 5G Technology; the SME Digitalisation Plan 2021-2025; the Plan for the Digitalisation of Spain's Public Administration: 2021-2025; the National Plan for Digital Skills; and, the Spain Audio-visual Hub. Also, Spain has delivered a number of milestones and targets related with education, social protection, labour market modernisation, business climate improvement and tax reform, among others.

In January 2022, Spain will request a disbursement of 12 billion euros on the basis of the milestones and targets delivered during the second half of 2021. And in the second half of 2022, it should be due another 6 billion euros. In 2023, it may qualify for another two disbursements, the first of 10 billion euros in the first half and the second of 7 billion euros in the second half. After 2023, it would be due one annual disbursement: 8 billion euros at the end of the first half of 2024, another 3.48 billion euros at the same juncture of 2025, and a final payment of 4 billion euros in December 2026, marking the end of the RRF.

Execution performance as of October 2021

The rollout of the investments contemplated in the Plan is not, however, subject to effective disbursement of the RRF funds

"In 2021, Spain received a first payment by way of 'pre-financing' of close to 9.04 billion euros (equivalent to 13% of the 69.53 billion euros of RRF transfers due in total)."

> “Based on the budget breakdown contemplated in the Plan for 2021 and the tenders published up until October, a significant volume of funds still needs to be executed before the end of the year.”

by the European Commission and receipt thereof by Spain. To the contrary, the Spanish government is anticipating receipt of the funds, layering them into its general budgets, in order to be ready to put them to use quickly. It will then repay the debt taken on to front-load the investments as it receives the funds from the European Commission.

The Plan sets down the funds needed to implement the measures comprising each component (maximum budget) and the types of tenders that the administration will call (grants, refundable financing [soft loans], tenders, *etc.*). The first tenders were published in April 2021 and since then the authorities have run a series of tenders associated with implementation of the various components of the Plan.

However, judging by the budget breakdown contemplated in the Plan for 2021 and the information gleaned from the tenders published up until October (inclusive), [5] a significant volume of funds still needs to be executed before the end of the year. Note additionally that the pace of execution across the various drivers and components of the Plan is proving uneven. Next, we analyse the state of progress of [6] each of the policy levers and their components.

Policy lever #1 is “Urban and rural agenda, agricultural development and the fight against depopulation”, with a budget for this year of close to 4.5 billion euros. It is the most advanced in terms of the funds mobilised as of October 2021, with an execution or outturn rate of around 80%. That high percentage is attributable to the progress made on two of its core components. The first of those two components is “Housing rehabilitation and urban renewal plan” and the favourable progress report is thanks to the launch of the so-called “Building Energy Rehabilitation Programme”, along with another two programmes for municipalities facing demographic challenges and the Residential Rehabilitation Programme. The other top-performing component (albeit one with a much smaller budget allocation) is “Green and digital transformation of agri-food and fisheries industries”; an area in which grants have already been channelled into projects addressing sustainable irrigation and fishing fleet modernisation and digitalisation, in addition to other aid via the regional governments for the development of precision agriculture, energy efficiency in fish farms and energy recovery from subproducts and biomass.

Under *policy lever #2* “Resilient infrastructures and ecosystems” less than half of the 1.35 billion euros budgeted for this year has been allocated. Nevertheless, within the “Ecosystems and biodiversity conservation and restoration” component, over 80% of the budget has already been distributed among the regional governments to pursue initiatives in this area. Albeit to a lesser extent, funds have already been distributed regionally for the “Coastal area and water resources preservation” component.

As regards *policy lever #3* “A fair and inclusive energy transition”, the execution rate stands at 40% of the current budget of 2.75 billion euros. The strongest progress has been made in the “Fair transition strategy”. That said, this component has a budget of just 90 million euros in 2021. The “Renewable energies implementation and integration” component, on the other hand, boasts the biggest budget: 1.9 billion euros. The grants launched to subsidise the installation of renewable energy self-consumption and storage infrastructure stand out; they will be channelled by the regional authorities and charged against the above component as well as “Electrical

> "The percentage of funds to be allocated for the remainder of the year under *policy lever 4* is higher but the award process could be more agile as it does not depend on tenders involving private agents."

infrastructures, promotion of smart networks and deployment of flexibility and storage".

Policy lever #4, "A public administration for the 21st century", has been allocated a budget of a little over 1.9 billion euros for this year, earmarked to a single component: "Modernisation of public administration". Here, the percentage of funds to be allocated for the remainder of the year is higher but we think the award process could be more agile as it does not depend on tenders involving private agents.

"Modernisation and digitalisation of industry and SMEs, entrepreneurship and business environment, recovery and transformation of tourism and other strategic sectors" (*policy lever #5*) presents an execution rate of around 40% of the 3.8 billion euros allocated for 2021. However, the level of progress differs significantly across its four components. The component with the biggest budget allocation for this year (around 1.06 billion euros), which is "Digital connectivity, cybersecurity, 5G deployment", has launched a few banner tenders, including the "Single Broadband" project for the rollout of ultra-high speed broadband networks. The "Industrial Policy Spain 2030" component, despite having a somewhat smaller budget, will channel close to 840 million euros, including a range of grants in the form of reimbursable financing (such as the Active Financing Facility and innovation and sustainability plans in the manufacturing sector) and we estimate execution levels at over 70%. This component also encompasses the sector-specific plans, the so-called Strategic Economic Recovery and Transformation Plans, although only the plan for electric and connected cars has been approved so far. The tender for aid for "End-to-end initiatives in the electric and connected vehicle industrial chain" is set to be published before the end of the year. Elsewhere, the "Modernisation and competitiveness of the tourism sector" (over 1 billion euros in 2021) and "Fostering SME growth" components (over 900 million euros) are far less advanced, with estimated execution rates of under 13%. Some of the lines of initiative falling under this category include destination market sustainability plans and aid for local authorities for the purpose of modernising business districts.

The situation is better with *policy lever #6,* "Promotion of science and innovation and strengthening of the capabilities of the National Health System", which has a budget allocation of around 1.86 billion euros and presents an execution rate of nearly 70% as of October 2021. The best-performing component is "Renewal and expansion of the capabilities of the National Health System", where execution stands at over 90%, thanks to the rollout of a specific plan, via the regional authorities, for the acquisition of medical technology. However, the component with the biggest budget for 2021 (over 1.1 billion euros) is "Institutional reform and capacity building in the national science, technology and innovation system". The launch of several grant tenders by CDTI (acronym in

> "The new care economy and employment policies" (*policy lever #8*), with a budget of over 2 billion euros in 2021, presents an execution level of just over 70%.

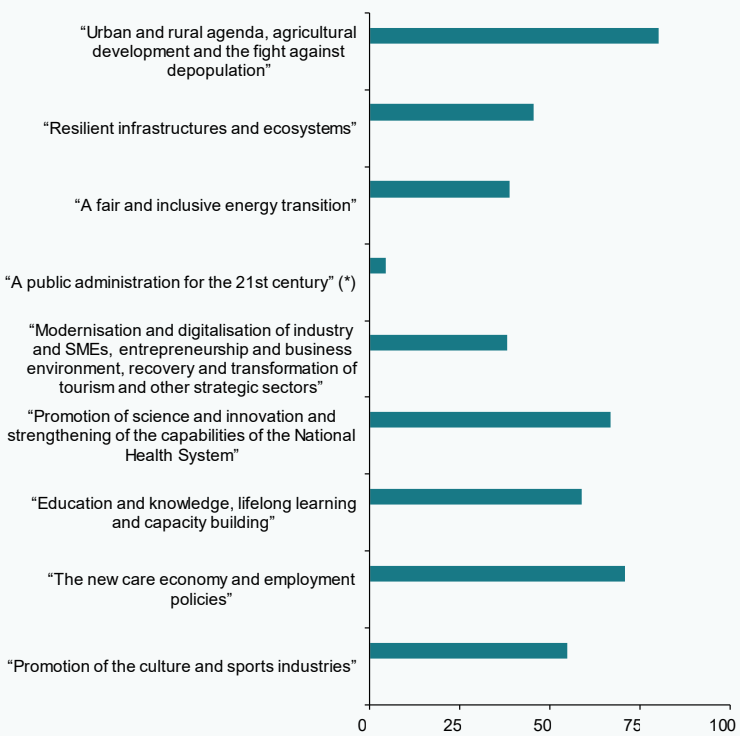
Spanish for the Centre for the Development of Industrial Technology) and other entities (such as the Science and Innovation Missions Programme) and the aid for the acquisition of scientific-technical equipment, managed by the State Research Agency) has enabled the execution of over two-thirds of the planned funding. The "National Strategy for Artificial Intelligence" component is at a similar level of progress, thanks to the completion in early October of a tender for grants for R&D projects in the field of artificial intelligence and other digital technologies.

Policy lever #7, "Education and knowledge, lifelong learning and capacity building" presents an execution rate of around 60% as of October, out of the total 2021 budget of almost 3.3 billion euros. The level of execution varies between this policy's three components, although most of the budget, over 2.2 billion euros, has been assigned to the "National Plan for Digital Skills". Within the funds allocated to date, it is worth highlighting the distribution among the regional governments of over 1.6 billion euros of funds for classroom digitalisation, vocational training, the

Exhibit 1

Estimated level of execution of Spain's Recovery, Transformation and Resilience Plan, by policy lever, as of October 2021

Percentage of the budget allocation indicated in the Plan



(*) The level of execution of this policy lever may be underestimated if the funds allocated to the public administrations for their modernisation are used directly by them. Excludes 2 billion euros of public funding (ICO-AXIS and SEDIA) for the Next Tech [7] Fund for the first four years.

Sources: Afi, based on the Recovery, Transformation and Resilience Plan (approved in June 2021) and grant tenders charged to the RRF published in Spain's Official State Journal.

"The ministries that will be allocated the highest volumes of funds in 2022 are transport (22% of the total), industry (18%), green transition (16%) and economic affairs (15%)."

implementation of education orientation programmes for vulnerable groups and training and skills provision for teaching and research staff.

"The new care economy and employment policies" (*policy lever #8*), with a budget of over 2 billion euros in 2021, presents an execution level of just over 70%. This lever's two components boast broadly similar budgets. That being said, fund allocation is further along in the "Emergency plan for the care economy and reinforcement of inclusion policies" component relative to "New public policies for a dynamic, resilient and inclusive labour market". In both instances, the funds are being mobilised via the regional governments and are being earmarked to initiatives to promote jobs for youths, labour activation policies, territorial rebalancing and equality projects and initiatives related with social inclusion and the minimum income scheme.

Lastly, *policy lever #9,* "Promotion of the culture and sports industries", is smaller in scale, with a budget of 307 million in 2021, and presents a modest execution rate, of an estimated 55%. Nevertheless, the budget assignation devoted to the "Unlocking of value in the cultural industry" has been awarded in full and progress has been made on the odd initiative within the "Spain AVS Hub" component in order to foster the international expansion of the Spanish audiovisual sector.

At any rate, just two months shy of year-end, it looks unlikely that all of the budget allocated for year one of the Recovery Plan will be executed. However, unlike other funds awarded by the European Union, the RRF funds that are not executed this year will not be lost but will rather get rolled over to next year's budget.

Expectations for 2022

The general state budget for 2020 assigns 26.9 billion euros to the Recovery, Transformation and Resilience Plan, pending adjustments for the funds that ultimately are not executed in 2021 and get rolled over to next year. That sum implies stepping up the pace of investments and reforms by over 10% by comparison with 2021.

That growth will similarly be felt at the regional and local levels as the regional governments are expected to receive 8.71 billion euros, and the local authorities, a further 2.05 billion euros, in order to set the initiatives contemplated in the Plan that fall under their purview in motion. As a result, the regional governments will receive 31% more funds than they have been allocated in 2021, while the local authorities will get an additional 58%, without prejudice to the adjustments stemming from effective fund execution each year.

Elsewhere, the ministries that will be allocated the highest volumes of funds in 2022 for execution of the Plan are the ministry of transport (22% of the total), followed by the ministries of industry (18%), green transition (16%) and economic affairs (15%). Between them, those four ministries will be responsible for over 70% of the RRF budget for next year.

In terms of lines of initiative, the biggest budget allocation in 2022 (close to 32% of the total) goes to policy lever #5, "Modernisation and digitalisation of industry and SMEs, entrepreneurship and business environment, recovery and transformation of tourism and other strategic sectors". Its materialisation will depend to a significant degree on the implementation of major projects, such as the strategic sector-specific plans, in order to drive the competitiveness and sustainability of Spanish industry. It will also require

Table 1

Budget for the Recovery, Transformation and Resilience Plan for 2022 by policy lever

	Initiatives contemplated in the Recovery Plan by policy lever	2022 budget (billion euros)*	% of total
1	"Urban and rural agenda, agricultural development and the fight against depopulation"	5.52	20.5
2	"Resilient infrastructures and ecosystems"	2.84	10.6
3	"A fair and inclusive energy transition"	1.65	6.1
4	"A public administration for the 21st century"	1.80	6.7
5	"Modernisation and digitalisation of industry and SMEs, entrepreneurship and business environment, recovery and transformation of tourism and other strategic sectors"	8.50	31.6
6	"Promotion of science and innovation and strengthening of the capabilities of the National Health System"	2.28	8.5
7	"Education and knowledge, lifelong learning and capacity building"	2.09	7.8
8	"The new care economy and employment policies"	1.94	7.2
9	"Promotion of the culture and sports industries"	0.29	1.1
	Total (policy levers 1 to 10)	26.90	100

(*) Amounts gleaned from the general state budget for 2022, presented on October 13th, 2021. Relates to the funds pertaining to the Recovery and Resilience Facility (RRF) only.

Source: Afi, based on the general state budget for 2022.

actions targeted at SME digitalisation and the modernisation of business restructuring mechanisms that help nurture highly innovative enterprises.

A little over 20% of the 2022 budget is earmarked to fostering a range of initiatives under "Urban and rural agenda, agricultural development and the fight against depopulation" (refer to Table 1 for additional details about the budget breakdown).

In short, execution of the recovery funds is set to be more dynamic in 2022, articulated to a greater degree across the various levels of government, in keeping with their respective areas of competence. It will, therefore, be up to the various economic agents to identify opportunities for carrying out new projects with the capacity to drive the competitiveness and modernisation of the Spanish economy, advance on the key challenges associated with the long-sought twin green and digital transition, while forging more solid foundations in the areas of equality and social and territorial cohesion.

Notes

[1] In this paper, we only contemplate the RRF funds, as they constitute the main NGEU instrument.

[2] The deadline for committing the non-reimbursable portion of the funds is December 31st, 2023.

[3] The milestones and objectives are structured into three levels: (i) those allocated to each component of the Plan; (ii) those corresponding to the measures comprising each component; and, (iii) those related with projects or sub-projects associated with those measures.

[4] Refer to Appendix I of the Recovery, Transformation and Resilience Plan, of June 16th, 2021 (pages 244 to 274): https://www.lamoncloa.gob.es/temas/fondos-recuperacion/Documents/160621-Plan_Recuperacion_Transformacion_Resiliencia.pdf

[5] Information gathered by tracking the rules published for the various tenders in the Official State Journal and on the public sector contracting platform, along with other public data sources.

[6] We do not analyse policy lever #10 "Modernisation of the tax system for inclusive and sustainable growth", as it is not tied to the RRF transfers.

[7] Refer to https://portal.mineco.gob.es/es-es/comunicacion/Paginas/210719-fondo-next-tech.aspx

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PRODUCTIVITY

Lagging productivity and the need for structural reforms in Spain

Spanish productivity has lagged both the US and eurozone for the past two decades due to lower investment in key areas, such as technological and human capital, among others. Although the European recovery funds should facilitate investment in areas like digitalisation, structural reforms will also be necessary to boost Spain's productivity growth.

Joaquín Maudos

Abstract: For the past two decades, Spain's economic growth has been underpinned by the accumulation of factors of production, with productivity undermining growth. In fact, since 2000, total factor productivity (TFP) has fallen by 14.7%, which helps explain why GDP per capita in Spain trails the eurozone average by 18.5%, with productivity per hour worked also lagging by 14.1%. Behind that poor performance in productivity lies scant investment in its determinants, as illustrated by the fact that Spain lags the European average in variables, such as its stock of technological capital relative to GDP (66.1% lower), its stock of human capital (4.2% lower), its stock of public capital (26.6% lower per capita) and its stock of productive capital per employee (29.9% lower), among others. The COVID-19 crisis has served to exacerbate Spain's productivity problem, with the loss of work and falling TFP contributing to the marked decline in 2020. In order

to reverse this trend, structural reforms alongside the deployment of European recovery funds will be necessary. Among the investments contemplated, those aimed at boosting digitalisation are imperative given the productivity gains associated with digital transformation.

Introduction [1]

It is widely known that the Spanish economy has been suffering from low productivity, which has weighed on growth for decades. Spain's poor productivity metrics help explain why the country's per-capita GDP (barometer for material wellbeing) is 18.5% below the eurozone average. To stimulate growth, it is therefore necessary to boost productivity, which in turn requires structural reforms, *i.e.*, those that work on the supply side of the economy. Against that backdrop, it makes sense to support the economic recovery from the COVID-19 crisis with investments that lift the country's potential output (such as those aimed at the digital transformation of the business sector). It is also essential that the European Commission conditions receipt of its Next Generation EU funds on effective implementation of structural reforms, including the reform of the pension system (needed to reduce the structural public deficit) and the labour market (to reduce the natural or long-term rate of unemployment).

During the last two decades, the Spanish economy's productivity (measured using total factor productivity –TFP– as a proxy) has fallen by 14.7%. The problem is common across the eurozone economy (although the loss of productivity is more pronounced in Spain) and contrasts with the TFP gains sustained in the US, where GDP per capita is 34.5% higher than in the eurozone. Many factors contribute to Spain's low productivity, including its low investment in R&D, its smaller stock of human capital, depleted stock of infrastructure and inefficient labour market.

The purpose of this article is to analyse the most recent productivity figures for the Spanish economy in the international context (eurozone and US) between 2000 to 2021, including an initial analysis of the impact of the COVID-19 crisis. Using growth accounting methodology, we quantify the contribution by the accumulation of factors of production (labour and capital, distinguishing in the former instance between quantity and quality and in the latter, between ICT and non-ICT capital) and by TFP. The results reveal the negative contribution of TFP to the Spanish economy. Hence the urgency of implementing the structural reforms needed to boost productivity. Such reforms are a prerequisite for maximising the effectiveness of the investments financed by the European recovery funds, including those aimed at accelerating the digital transformation of the business sector.

Productivity of the Spanish economy in the international context

Nobel prize-winner Paul Krugman famously stated, "Productivity isn't everything, but, in the long-run, it is almost everything", alluding to its importance as a source of economic growth. That is why it is so important to monitor the trend in the Spanish economy's productivity in the international context since lower productivity is largely responsible for the gap between GDP per capita in Spain and that of other advanced economies.

In the case of labour productivity (measured per hour worked), in 2020, Spain lagged the eurozone by 14.1% and the eurozone in turn lagged the US by 85.5%. In comparison with the main economies comprising the economic and monetary union, Spain also lags behind Germany (22%), France (25%)

"During the last two decades, the Spanish economy's productivity (measured using total factor productivity –TFP– as a proxy) has fallen by 14.7%."

> “In the case of labour productivity, in 2020, Spain lagged the eurozone by 14.1% and the eurozone in turn lagged the US by 85.5%.”

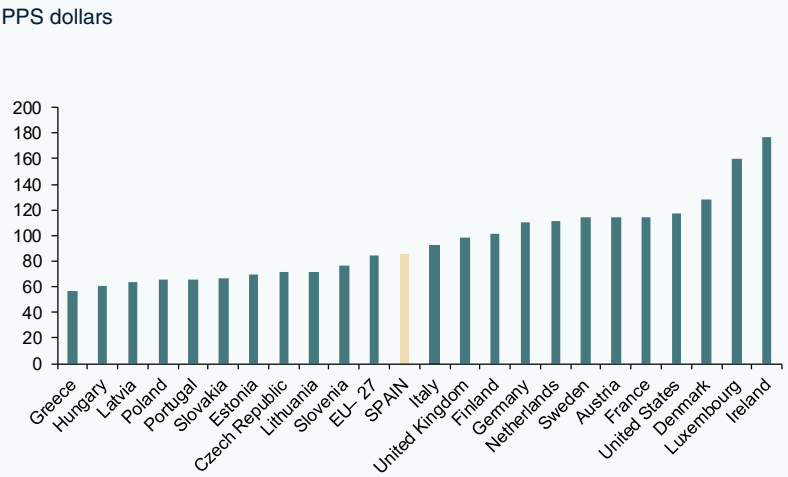
and Italy (7.3%). It is therefore clear that the labour productivity gap between Spain and other developed economies is one of the factors responsible for the gap in wellbeing (GDP per capita). Moreover, that productivity shortfall with respect to the eurozone average in 2020 is unchanged since 2000 (14.1%), which helps explain why the gap in terms of GDP per capita has not narrowed in the last two decades. In fact, that gap has actually widened by 3.6 percentage points between 2000 and 2020, with Spanish GDP per capita falling from 85.1% of the eurozone average to 81.5%.

A second and more rigorous productivity indicator is total factor productivity (TFP), a metric that addresses how efficiently labour and capital are used together. Consider that if employees are equipped with a bigger stock of capital, they will be able to increase output, so that their higher productivity is attributed to capital and not labour.

The database compiled by The Conference Board permits an assessment of the Spanish economy’s productivity in the international context. The database focuses on the sources of economic growth, so that it is possible to quantify the contributions of the following factors: the quantity of labour (hours worked), the quality of labour, ICT capital, non-ICT capital and TFP. Moreover, for certain variables it provides insight into the rates of growth, enabling an assessment of whether productivity in Spain is converging or losing ground with that of other economies.

Considering the period since 2000, we note that Spanish TFP has fallen by 14.7%. The

Exhibit 1 **Labour productivity (GDP per hour worked). Eurozone = 100, 2020**

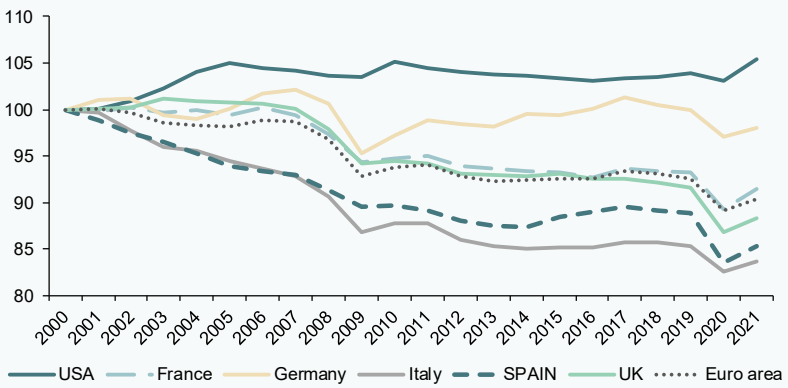


Source: OECD.

> “During the last two decades, productivity in the eurozone has fallen by 9.6%, which is half the contraction observed in Spain.”

Exhibit 2 **Trend in TFP**

2000=100



Source: The Conference Board.

problem goes back further, however, as Spain's TFP in 2021 is 20% below that of 1990 (the earliest year for which these data are available). [2]

The eurozone has also become less productive over the same timeframe, albeit far less so than Spain. During the last two decades, productivity in the eurozone has fallen by 9.6%, which is half the contraction observed in Spain. And since 1990, the loss in Spain is similarly twice that of the eurozone. Those figures contrast with the productivity gains eked out in the US, where TFP has increased by 5.5% between 2000 and 2021 and by 8.5% since 1990.

As for the main eurozone economies, the drop in TFP in Spain (14.7% since 2000) surpasses the ground lost in France (8.5%), Germany (2%) and the UK (11.6%) but is lower than in Italy (16.3%).

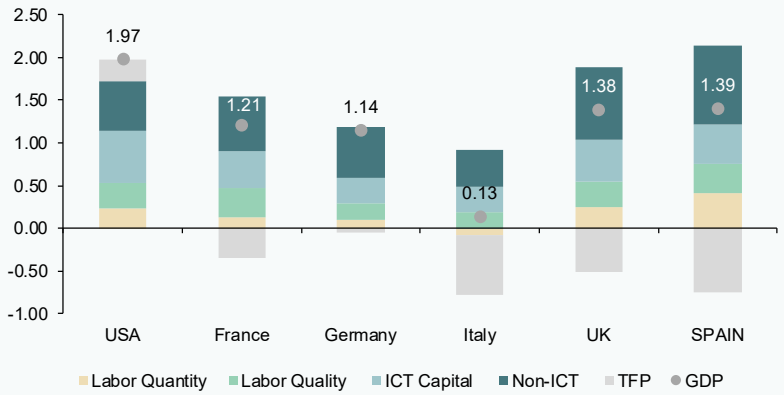
Growth accounting

The sources of economic growth are twofold: the accumulation of factors of production (labour and capital) and productivity gains, enabling growth in production using the same quantity of inputs.

The information available allows us to examine the contribution by the factors of production based on their quantity relative to improvements in their quality. In the case of labour, upgraded quality adds to the stock of human capital, whereas in the case of capital, the split between quantity and quality can be approximated by distinguishing between ICT and non-ICT capital.

On average, between 2000 and 2021, Spanish GDP increased by 1.3% per annum. Unfortunately, TFP detracted from that growth, falling at a rate of 0.75%, which adds up to a negative contribution of 53.5%. The

Exhibit 3 **Growth accounting annual growth rates, 2000-2021**



Source: The Conference Board.

factor making the biggest contribution to GDP growth is Spain's investment in conventional or non-ICT capital (annual growth of 0.93%), with a contribution of 66.6%. That factor is followed by investment in ICT capital (+0.45%; +32.6%) and growth in the number of hours worked (+0.41%; +29.1%), while the improvement in the quality of work (human capital) is the factor making the smallest contribution (+0.35%; +25.2%).

The patterns in the Spanish economy's sources of growth are replicated, with greater intensity, in Italy, where TFP has fallen at a similar pace as in Spain but in the context of very scant GDP growth between 2000 and 2021. In Italy, too, investment in ICT capital lags investment in conventional capital.

One trend shared across France, Germany, Italy and Spain is that TFP has fallen since 2000 (albeit much less sharply in Germany). Another common trait among these economies is the fact that the contribution to growth by non-ICT capital is bigger than that of ICT capital. That is also true of the UK, a former EU member state.

What is the reason for Spain's low productivity?

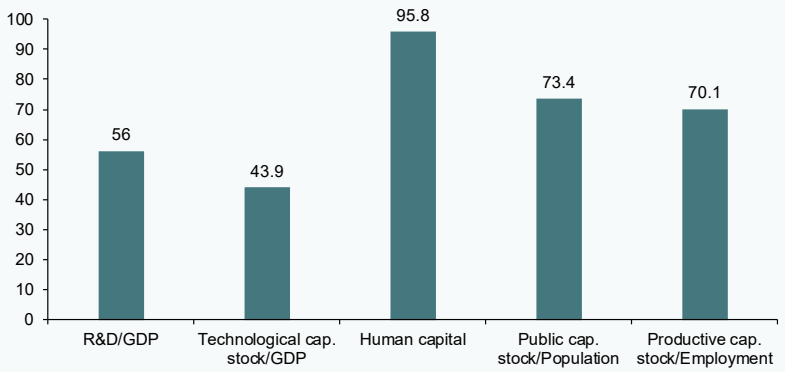
Economic theory and empirical evidence have established the variables that drive productivity gains. Those variables include investment in R&D, intangible assets, employee training (human capital), infrastructure that shapes businesses' production costs (such as transport), businesses' productive capital, *etc.*

The Bank of Spain presents comparative information for those structural variables. The most recent figures, which date to 2019 and are depicted in Exhibit 4, clearly illustrate

> "On average, between 2000 and 2021, Spanish GDP increased by 1.3% per annum, with TFP detracting from that growth, falling at a rate of 0.75%."

Exhibit 4 **Determinants of the Spanish economy's TFP, 2019**

EMU = 100



Source: Bank of Spain.

where Spain's low productivity problems lie. Specifically, the Spanish economy:

- Invests 44% less in R&D (R&D/GDP) than the eurozone average.
- Has a 66.1% smaller stock of ICT capital than the eurozone average (as a percentage of GDP.
- Invests less in training, as is evident in the fact that its stock of human capital (indicator corrected for quality) is 4.2% smaller than the European average.
- Has a 26.6% smaller stock of public capital per capita.
- Uses 29.9% less productive capital per employee than is used on average by a eurozone worker.

The list of structural indicators reported by the Bank of Spain is broader and offers greater insight information. For example, the shortfall of investment in innovation is more pronounced in the public sector. Additionally, the number of patents applied for per capita is less than one-third of the European average. Investment in private equity as a percentage of GDP is less than half of the eurozone average while public spending on education relative to the population aged between 16 and 65 is 65% of the EMU average. The figures also corroborate Spain's relatively smaller stock of intangible assets, those most closely related with digitalisation. [3]

How has the COVID-19 crisis affected productivity?

Although the 2021 figures are estimates based on the information published by The Conference Board, it is possible to analyse how

> "The number of patents applied for per capita in Spain is less than one-third of the European average."

> “The loss of work was the key factor responsible for the contraction in Spanish GDP (55.8%), followed by TFP, which made a negative contribution of 53.1%.”

the COVID-19 crisis has impacted productivity growth and the sources of economic growth. After Spain declared a state of emergency in March 2020, its GDP contracted drastically. GDP shrank by more in Europe than in the US, with Spain topping the ranking. [4] The expectation is that these economies will recover a lot of the ground lost in 2020, albeit exhibiting differing rates of growth from one economy to the next.

TFP, meanwhile, contracted by an estimated 6.1% in 2020, which is the biggest drop among the countries analysed. The loss of work was the key factor responsible for the contraction in Spanish GDP (55.8%), followed by TFP, which made a negative contribution of 53.1%. The forecast for 2021 is for growth in productivity, as GDP is growing faster than the factors of production. In Spain, productivity gains are projected to account for 37% of the recovery in GDP, which is close to the percentage anticipated in the US (39.7%). The recovery in employment, after the rout of 2020, is expected to make the biggest contribution to GDP growth in Spain in 2021 (responsible for 45%).

Productivity, structural reforms and the European recovery funds

Following the brutal impact of the COVID-19 crisis, Spain must take advantage of the European recovery funds (the NGEU scheme) to increase the economy’s potential output. An integral part of this challenge entails lifting its productivity. Of the various investment areas contemplated in the so-called Recovery, Transformation and

Table 1

Annual rate of growth in GDP and breakdown by the sources of growth

Percentage

	USA		*France*		*Germany*		*Italy*		*UK*		*Spain*	
	2019-2020	2020-2021	2019-2020	2020-2021	2019-2020	2020-2021	2019-2020	2020-2021	2019-2020	2020-2021	2019-2020	2020-2021
GDP	-3.46	5.80	-8.18	6.30	-4.68	2.91	-9.29	4.57	-10.37	5.39	-11.47	5.99
Labor Quantity	-3.91	2.27	-4.95	2.48	-3.01	0.93	-6.22	2.80	-6.30	2.75	-6.40	2.69
Labor Quality	0.44	0.22	0.37	0.19	0.56	0.31	0.09	0.10	0.37	0.12	0.45	0.20
ICT Capital	0.50	0.57	0.46	0.53	0.16	0.19	0.20	0.25	0.30	0.23	0.32	0.42
Non-ICT	0.30	0.45	0.28	0.51	0.44	0.55	-0.11	0.14	0.42	0.53	0.25	0.46
TFP	-0.80	2.30	-4.35	2.59	-2.82	0.94	-3.25	1.30	-5.15	1.76	-6.10	2.22

Source: The Conference Board.

> “In the specific case of Spain, the European Commission recommends increasing investment in intangible assets as the contribution by intangibles to growth in labour productivity in Spain is the lowest in the EU-15.”

Resilience Plan, which outlines the use of these funds, the section devoted to digital transformation [5] is a top priority in terms of productivity, as digitalisation unquestionably boosts productivity by rendering companies more efficient. Indeed, a recent report by the European Investment Bank (2021) shows that digitalised companies (those that have implemented at least one digital technology) are more productive. Other reports (*e.g.*, Calvino *et al.,* 2018 for the OECD) also show that the countries with a bigger percentage of GDP concentrated in highly digitalised sectors are more productive and present higher levels of per capita income. In the specific case of Spain, the European Commission (2020) recommends increasing investment in intangible assets (particularly software and databases) as the contribution by intangibles to growth in labour productivity in Spain is the lowest in the EU-15.

The investments planned under the recovery scheme are a necessary step but are not sufficient on their own to maximise their impact. In parallel, Spain needs to implement structural reforms, namely those that work on the supply side of the economy and pave the way for increasing potential output. The 102 reforms contained in Spain's Recovery, Transformation and Resilience Plan are very necessary, especially those related to boosting the stock of human capital, investing in science and innovation, increasing the stock of ICT technology and rendering the country's public finances sustainable. Spain fares poorly along all those variables by international standards. Closing the gap between Spain and the most developed economies (or the eurozone average) in each is therefore the best way of also narrowing the divide in productivity and wellbeing. This must be done in parallel with fiscal reforms to tackle the high structural deficit, labour reforms to reduce the high rate of structural unemployment, and pension system reforms to ensure its long-term sustainability.

Notes

[1] This paper falls under the scope of research projects ECO2017-84828-R (Spanish Ministry of the Economy, Industry and Competitiveness) and AICO2020/217 (Valencian Government).

[2] The trend in TFP gleaned from The Conference Board (TCB) database differs substantially from that provided by the European Commission's AMECO database, a difference that is attributed to several potential factors. TCB measures employment more rigorously, as it uses the number of hours worked rather than the number of employees. TCB also factors in the quality of labour (human capital). That latter component –human capital quality– has a downward effect on TFP, as this is estimated as a residual (that is, by the difference between GDP growth and that of production factors), thus the significant increase in human capital that has taken place in Spain in recent decades has reduced TFP growth when the quality of work is taken into account. The definition of capital also differs. That used by TCB follows the calculation standards in growth accounting (using "productive capital" rather than "net capital" and appropriate deflators for measuring the trend in ICT capital, *etc.*). In addition, TCB analyses the contribution by ICT and non-ICT capital separately.

[3] The list of variables underpinning productivity is even longer as productivity is additionally influenced by a series of factors, such as: access to financing; regulatory matters (which affect the ease of doing business and business growth); institutional quality; the workings of the labour market; business dynamism, *etc.* The European Commission (2020) highlights the importance of structural change, low investment in intangibles, the impact of zombie firms and business cycle dynamics in explaining why Spain presented the second-lowest growth in labour productivity between 1970 and 2016.

[4] According to Spain's statistics office, the country's GDP contracted by 10.8% in 2020, a figure that has yet to be updated in The Conference Board's database (-11.5%).

[5] Of the 10 structural reform levers articulating Spain's Recovery Plan, Lever V (Modernisation and digitalisation of industry and SMEs, entrepreneurship and business environment, recovery and transformation of tourism and other strategic sectors) accounts for 23% of all the aid to be received (16.08 billion euros out of a total 69.53 billion euros). In addition to those direct investments in digitalisation, a further 1.05 billion euros of investments have been earmarked to Lever I "Green and digital transformation of the agri-food and fisheries industries", 3.59 billion euros to the "National Plan for Digital Skills" (Lever VII) and 1.65 billion euros to the "Modernisation and digitalisation of the education system, including early education from age 0 to 3" (also Lever VII). As a result, one-third of the investments to be financed from the NGEU grants are articulated around digital transformation.

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Cryptoassets: The good, the bad and the advent of CBDCs

The emergence of cryptoassets provides both risks and opportunities for investors, banks and central banks alike. However, determining the ideal design and regulation of these assets, as well as anticipating any potential risks, will be key to minimizing financial system disruption and maximizing the associated benefits.

Santiago Carbó Valverde and Francisco Rodríguez Fernández

Abstract: Cryptoassets draw admirers and detractors in equal amounts. They are, nevertheless, here to stay and are destined to play a prominent role in the global financial system over the coming decades, as renowned institutional investors and central banks are already acknowledging. However, it is not yet clear which type of asset will prove most dominant. Moreover, there are questions regarding the intrinsic value of a broad number of these assets, with potential risks for their holders and for the stability of the financial system. Here, banks could play an important role. These institutions have a comparative advantage given their experience with financial regulation and would benefit as they transition towards digital service platforms. Central banks are also increasingly considering how they could influence the development of cryptoassets. For example, the ECB is examining a number of options including a system of citizen retail accounts. However, this would have consequences, such as banks' increased reliance on wholesale versus retail funding, with potentially adverse implications for their margins.

Introduction

The gradual digital transformation of payments, investments and savings has been reckoned with for decades. However,

> “ In September, El Salvador became the first country to accept Bitcoin –the leading digital currency in the market– as legal tender. ”

computing and cryptography have enabled the development of assets that are often hard to categorise and present unusual advances in aspects, such as transaction and settlement speed, data privacy and security. There are a wide range of assets with different configuration and usage, encryption, transparency and acceptance protocols. Cryptocurrencies are the most well-known and controversial of these assets on account of their economic and social ramifications.

It is an undeniable reality that this asset will affect much of the financial system in the coming decades. What shape the landscape will ultimately take and which assets will prove sufficiently deep and accepted remains unknown. In this paper, we analyse the attributes of some of these digital assets and how they are affecting essential financial system functions, such as bank intermediation, monetary policy and financial stability. At the centre of the prevailing debate are the so-called central bank digital currencies (CBDCs), which, coupled with incipient regulation of digital platforms and digital financial assets, are defining a new paradigm for a sector that has been, thus far, as confusing as it has been exciting.

The performance and acceptance of cryptoassets, or, more generically, digital financial assets, has varied considerably. In September, for example, El Salvador agreed to accept Bitcoin –the leading digital currency in the market– as legal tender. It was the first country in the world to do so. The decision was somewhat controversial. There is a degree of consensus in the analyst community that Bitcoin has failed to become a payment instrument with the exchange stability, divisibility and ease of settlement properties a fiat currency has. In October, the US Securities and Exchange Commission (SEC) approved an exchange traded fund (ETF) that tracks Bitcoin for NYSE listing, a move that has been followed by other cryptocurrency ETFs. That development, coupled with growing positioning in and openness to trading in cryptoassets by banks and investment companies, has fuelled these assets’ so-called “institutionalisation”. However, the very fact that these ETFs have listed on the market highlights the controversial reality facing those positions as, what initially translated into a boost for currencies, such as Bitcoin, in a few short days materialised in major losses for ETF investors and the digital currency itself. Speculation and questions about their underlying value linger.

The sharp movements in the value of cryptocurrencies and in the assets and funds securitised and marketed around them has ensured a lively debate. It is hard to deny the growing importance of cryptography, distributed ledger systems and the digitalisation of money (beyond its functions as a method of payment), which increasingly act as core aspects of the financial system. Against that backdrop, two developments could pave the way for a degree of organisation and restructuring in the crypto field: (i) increasing regulation of digital platforms and assets; and, (ii) central bank digital currencies (CBDCs).

It is important to note that the development of these new kinds of digital money is taking place during a protracted period of ultra-low or negative interest rates. That has created a niche for investment alternatives with wider risk-return trade-offs or the ability to unlock efficiency gains at some point along the financial instrument value chain. The institutionalisation and regulation of these assets and the rollout of CBDCs could give them a more official profile. Indeed, a large part of the criticism and concerns expressed by numerous economists, regulators and

> "The market continues to make a distinction between those assets it considers fundamentally speculative and extremely volatile and others that are more credible."

supervisors around cryptocurrencies focuses on the difficulty in determining an underlying value for many of them. However, in a significant number of cases it has been possible to ascribe considerable value to the technology embedded in them or to somewhat more transparent or financially endorsed versions thereof. It is conceivable that this gradual formalisation will give relative importance to public versus private digital currency initiatives. Many central banks have been warning of the negative consequences that a rapidly-spreading and uncontrolled digital currency could have for financial stability. For example, China's ban on trading in cryptocurrencies came at the same time as the country launched a beta version of the official digital Yuan.

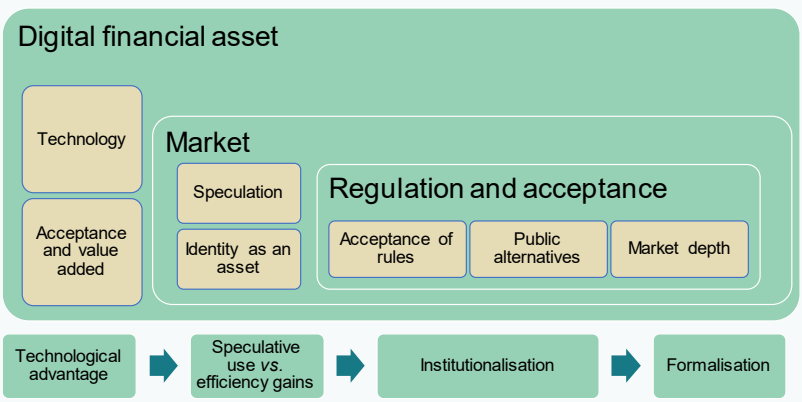
In the next section, we present an academic perspective on digital financial assets. We then focus on CBDCs as the likely dominant digital asset. Finally, the paper ends with a few brief conclusions.

Digital financial assets: An economic analysis

The popularity of cryptocurrencies and other digital assets has created a sort of intellectual gap in what could be very broadly termed the "future of money". Cryptoassets are particularly popular among the younger generation. Their vision contrasts with the grimmer interpretation made by the economic establishment, which sees a lot more value in the underlying technology embedded in cryptoassets (such as blockchain or, more generically, distributed ledger technology) than the financial assets themselves.

Exhibit 1 sums up the economic valuation problem. The market has accepted the

Exhibit 1 **The economic issue with digital assets: Underlying technology, market structure and valuation**



Source: Authors' own elaboration.

digital financial asset concept and the value added by the embedded technology, Nevertheless, the market continues to make a distinction between those assets it considers fundamentally speculative and extremely volatile and others that are more credible (as payment instrument, store of value, traded asset or securitisation, clearance or settlement technology, among others). Lastly, regulations and the introduction of market rules are emerging as a force for sector organisation. In the post-financial crisis world, it is not a good idea to have an abundance of assets whose values swing sharply and are traded in the shadow market. However, the emergence of publicly backed alternatives and transparency requirements are introducing competition and rules that are gradually determining the depth of the market for each cryptoasset.

The debate centres around the flagship currency: Bitcoin. As explained by Conesa (2019), Bitcoin was not designed as an alternative to conventional payment systems but rather as a central authority for approving or rejecting transactions. What Bitcoin offered in 2008 was a powerful mechanism for facilitating anonymous transactions at a reduced cost, in a safe and speedy manner, eliminating the need for intermediaries. Its distributed ledger systems have been used in many ways. Although blockchain was initially presented as a near-ubiquitous solution it has enabled extraordinarily important developments, such as smart contracts and a significant improvement in international credit and commercial transfers and systems (*e.g.,* the platforms created by banks for global trade credit).

Why have digital assets become more widely used and accepted? Blockchain and its value as a technology are largely responsible. But blockchain is not the whole story. Many economists believe that in the transition from cash to electronic payment methods, encryption and the development of new asset categories are the next evolutionary steps. They draw on historical analogies to remind us that the controversy and valuation problems around past innovations have frequently caused debate and even crises, only to give way to these new elements of the financial system. That narrative claims that cryptoassets are currently identifying weaknesses or gaps in the current system and proposing solutions, albeit in some instances this activity is incomplete. [1]

One of the problematic facets of cryptoassets lies with their volatility and implicit risk. As noted by Böhme *et al.* (2015), the original algorithm rules for mining Bitcoin were seen as an opportunity to solve a large number of problems with economic transactions and information flows. Instead of storing transactions on a single server or group of services, they are distributed to a network of participants, enabling verifiable participation and preventing concentrations of power (Böhme *et al.,* 2015). Over time, some of those characteristics have remained valid and useful and been applied in other sectors (*e.g.,* DLT), whereas other have failed. Bitcoin mining, for example, has relied on computing capacity and the assumption of energy costs, which has favoured the accumulation of power. Moreover, the restricted number of Bitcoins that can be created, their volatility and the opaque manner in which they are often used means that the cryptocurrency is not useful and cannot be considered a payment instrument.

To circumvent some of the issues posed by Bitcoin, other currencies have been developed that address these limitations. For example, stablecoins' value is anchored or benchmarked against fiat currencies, such as the dollar. Cryptoassets, whose main purpose is to offer a

“ Many economists believe that in the transition from cash to electronic payment methods, encryption and the development of new asset categories are the next evolutionary steps. ”

“ Many supervisors noted that the potential scale of Facebook’s digital currency could pose an issue for financial stability, requiring a gamut of regulations ranging from equity market investment requirements to solvency demands. ”

less energy intensive mining protocol, are also under development.

Although some of these projects proved popular early on, their market depth remains very limited. In the stablecoin arena, the project that has sparked the most controversy is Facebook’s Libra, with initial doubts centred on asset definition and security problems. Many supervisors noted that the scale the currency could attain may pose an issue for financial stability, requiring a gamut of regulations ranging from equity market investment requirements to solvency demands. In terms of security, many regulators dwelt on the fact that a company that has experienced data privacy problems might not be the best destination for a global payment system. More recently, some economists have pointed out that these proposals do not offer any improvements in two key areas in which the fiat currencies and banking sector are working well: exchange rate stability and security in handling customers’ financial data (Stiglitz, 2019). However, other economists have suggested that the recent developments of greater interest in cryptography, data protection and transaction efficiency are happening in certain private cryptocurrencies and that the latter are destined to prevail even in the event of stringent regulation and the emergence of central bank digital currencies (Amstrong, 2020). The political economy currents behind those criticisms are additionally shaped by the central banks’ reluctance to make room for private initiatives that act as alternative monetary systems beyond their control. This concern is the driving force behind the development of many national CBDCs.

Fraud scandals have also undermined the value proposition of cryptocurrencies and other digital assets. Such scandals extend beyond security hacks or data theft to global pyramid schemes in cryptoassets. Consequently, the US is contemplating a series of accounting and transparency measures for control purposes. Additionally, the Bank of England may approve capital requirements for banks that trade in or hold such instruments on their balance sheets. The Chinese government has gone the furthest by banning all transactions in private digital currencies last September.

On February 9th, 2021, the Spanish securities market regulator and the Bank of Spain issued a memorandum on the risks of investing in cryptocurrencies. Both institutions had already warned in 2018 of the significant risks associated with these investments due to their extreme volatility, complexity and lack of transparency. In their memorandum, they acknowledge the positive aspects of cryptocurrencies but cautioned that:

- There is still no European Union framework regulating cryptoassets that provides

“ The Spanish securities market regulator and the Bank of Spain warned in 2018 of the significant risks associated with cryptocurrency investments due to their extreme volatility, complexity and lack of transparency. ”

guarantees and protection equivalent to those applicable to conventional financial assets.

- Cryptoassets are not considered payment methods, they are not backed by a central bank or other public authority and they are not covered by customer protection mechanisms, such as the deposit or investment guarantee schemes.

- The estimated number of cryptocurrencies on the market with similar characteristics to Bitcoin stands at over 7,000. They are complex investment instruments that may not be suitable for small savers and their prices are driven significantly by speculation, exposing investors to potentially large losses.

- There are leveraged derivative products written over cryptocurrencies that enable indirect investments, further increasing their complexity.

- Digital currency price formation takes place in the absence of effective mechanisms for preventing price manipulation.

- Many of these cryptoassets may lack the liquidity needed to unwind a position without incurring significant losses.

- The distributed ledger technology used to issue digital coins entails specific risks. Their custody is neither regulated nor supervised.

Other cryptoasset spinoffs have garnered a lot of attention in recent years. The most important are the initial coin offerings (ICOs) in which a wide variety of assets, from interests in start-ups to video games or image rights, are securitised by means of virtual units of value, or tokens. While the financial and investment institutions see extensive technological and financing possibilities in these instruments, it is estimated that 80% of ICOs have lacked intrinsic value, generating losses for their holders, or have directly constituted fraud (Roubini, 2018). The development of ICOs without legal guarantees creates a misguided incentive system in terms of banking/investment network security and money laundering.

In this uncertain environment, the banking sector could play a key role. Financial institutions view cryptoassets as too big an investment opportunity to ignore. Banks, acting as intermediaries, could provide those security elements that are lacking in areas, such as accounting reporting and transparency, defence against money laundering and even the ability to act as security depositary and custodian. Banks could also use these services as part of their value propositions in a digital platform model that is likely to dominate across the sector

Exhibit 2 **"Platformisation" of the financial sector and integration of cryptoassets**

Source: Authors' own elaboration.

“ The Bank of Spain has developed a register for firms trading with cryptocurrencies, marking a first and important step towards greater transparency. ”

(Exhibit 2). In addition, any type of CBDC that uses the banks as intermediary could also lend institutional coverage to these developments.

The Bank of Spain has developed a register for firms trading with cryptocurrencies, marking a first and important step towards greater transparency. This register includes a list of providers of virtual money for fiat currency exchange and electronic wallet custody services. As such, it catches the full spectrum of participants in virtual currency trading, from purchase to custody and storage. In tandem, the European authorities are developing a set of regulations governing cryptoassets and the platforms they are traded on known as MICA (Markets in Cryptoassets), which could launch in 2022.

These initiatives, which could be coined the “re-intermediation” of digital asset trading, contrast with less orderly formalisation initiatives, such as El Salvador’s decision to approve the use of Bitcoin as legal tender last September. As noted by Gorjón (2021) “the project faces numerous practical uncertainties that raise doubts over the initiative’s medium-term future. For instance, it is difficult to judge who really bears the foreign exchange risk stemming from Bitcoin’s market fluctuations. It is unclear whether the fund, with the amounts allocated to it, will be able to absorb such fluctuations, nor the outcome once the fund is depleted. Ultimately, any future losses may have to be borne by taxpayers” (Gorjón, 2021).

CBDCs: The elephant in the room or a balancing mechanism?

Theoretical underpinnings and implementation challenges

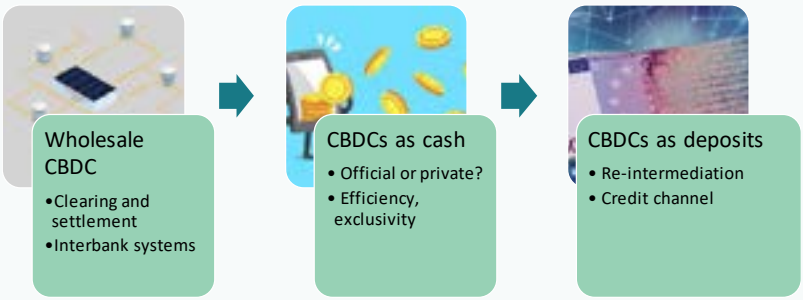
As the various governments and monetary authorities study the launch of official digital currencies, we are seeing a plethora of hypotheses about what impact they could have on global financial geopolitics, central bank policy, the private banking business and the reconfiguration of the digital asset market.

Many monetary authorities have internalized the relevance acquired by cryptoassets in many markets, particularly the significance assumed by cryptocurrencies. They have realised that at some point it might be necessary to jump on stage and play a leading role. Fundamentally, it is supposed to be the central banks that monitor and take decisions with respect to the money supply. By the same token, governments are aware that the significant penetration of a fiat currency in digital form could impact the exchange markets and monetary control on an international scale. It could therefore become necessary to regulate cross-border acceptance of central bank digital currencies (CBDCs).

The design of potential CBDCs could have structural consequences for payment methods, bank intermediation, savings and credit channels. As shown in Exhibit 3, there are three main ways of developing a CBDC. The first is to create a digital wholesale system to improve clearing and settlement systems

“ Governments are aware that the significant penetration of a fiat currency in digital form could impact the exchange markets and monetary control on an international scale. ”

Exhibit 3 **A few CBDC alternatives**



Source: Authors' own elaboration.

and foster faster, more secure, and more efficient interbank transfers. It is worth noting that there are already wholesale payment mechanisms in the main monetary areas that are working well. It is important to consider to what extent this wholesale use of CBDCs could bring fresh benefits.

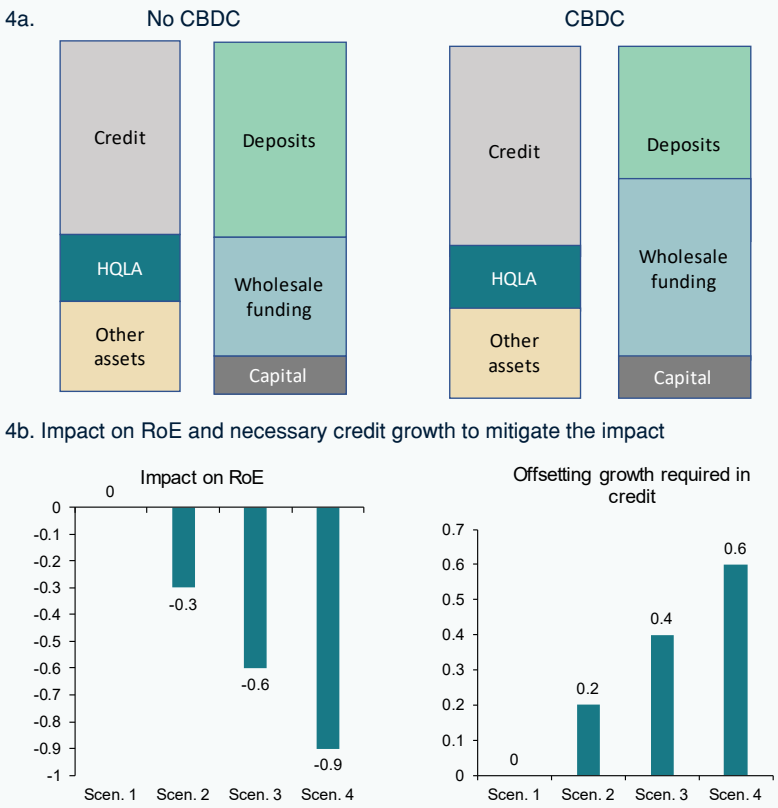
A second route is to create a CBDC that works as "digital cash". The idea is that in the current low-rate environment, monetary policy may have reached its lower bound and no longer be effective. Against that backdrop, it might be useful to have a CBDC that consists of digital cash (of a limited amount) which could be associated with an interest rate. Notes and coins are affected by inflation as they do not generate a return; but a monetary ledger of digital cash could offer an associated return, even if only a small one. This option would give central banks broader control over cash movements. There are already a few private wallets that are linked, primarily to bank accounts, albeit used merely as a payment method, without offering any remuneration. It is worth assessing to what extent it would make sense to substitute the private systems for public alternatives, with a focus on the degree of anonymity provided by such initiatives and whether to layer in remuneration on the digital cash.

A third option is to foster the development of CBDCs as central bank deposits that are more permanent in nature and offer higher remuneration than holding digital cash. That would constitute a wholly disruptive scenario. While such a development would be more efficient and offer greater monetary control and security benefits, it would also constitute a transformation cost for the bank intermediation system and monetary policy transmission channel currently in place. It would also have a negative impact on bank deposits, which are an essential input for the banking business.

The monetary authorities are aware of the possible disruptive impact of CBDCs. Several of the world's highest-profile central banks have conducted a study together with the Bank for International Settlements (BIS, 2021) in order to calibrate the impact of a CBDC that allows citizens to hold deposits at a central

" It might be useful to have a CBDC that consists of digital cash (of a limited amount) which could be associated with an interest rate. "

Exhibit 4 **Impact of CBDCs on deposits, credit and ROE**



Source: BIS (2021) and authors' own elaboration.

bank. The main estimates are summed up in Exhibit 4. The upper section of the exhibit shows the basic bank balance sheet structure with and without CBDCs. On the investment side, we show credit, high-quality liquid assets (HQLA), such as public debt, and other assets. On the liability side, there are deposits, wholesale funding and own funds.

The launch of this form of CBDC would entail the switch of a good chunk of banks' retail funding (deposits) to wholesale funding, as a majority of bank accounts would move to the central bank digital currency, with significant consequences. Firstly, it would alter the structure of liability remuneration and could push up the cost of funding and erode the banks' margins. Secondly, it would change customer relations and the manner in which deposits have traditionally been channelled into credit.

Although it is a distant possibility in the opinion of most central banks, there are four possible scenarios (refer to the bottom section of Exhibit 4) depending on the percentage of deposits that end up being replaced by wholesale funding. In scenario 1 the movement is estimated at between 0% and 5%, while in scenario 2 it would range from 5% - 10%. In scenario 3, the movement would increase to between 10% and 20%, and in scenario 4, it would exceed 20%. The negative impact on the banks' return on capital (ROE) could reach 0.9%. In addition, the banks would have to increase their loan

> The launch of this form of CBDC would entail the switch of a good chunk of banks' retail funding to wholesale funding, as a majority of bank accounts would move to the central bank digital currency.

books to offset the impact on their margins. The necessary increase in the rate of growth in lending activity is estimated at between 0.2% and 0.6%.

The digital euro

The ECB is keenly aware of the potential importance of CBDCs and is looking at a range of models. It has set up a specific section on its web portal to explain its progress and the experimental studies underway. In the ECB's opinion, "The digital euro would still be a euro: like banknotes but digital. It would be an electronic form of money issued by the Eurosystem (the ECB and national central banks) and accessible to all citizens and firms." It is important to note that according to the ECB, a digital euro would not replace cash, but rather complement it.

As for the reasons given for adopting a digital euro as a retail payment instrument, the ECB argues it would be a fast, easy and secure instrument for daily payments, support the digitalisation of the European economy and actively encourage innovation in retail payments.

The ECB acknowledges that part of its interest in developing a digital euro is to tackle the growth in digital payment systems issued and controlled from outside the eurozone, potentially jeopardising financial stability and monetary sovereignty. It prioritises protection of privacy. The central bank decided to launch a study into a digital euro in July 2021. The current investigation phase will last until at least 2023.

As well, in July 2021, the ECB published the results of certain technical experiments researching the practical possibilities of implementing a digital euro. [2] It concluded that "no major technical obstacles were identified to any of the assessed design options". It does, nevertheless, acknowledge that the implications go far beyond the technical feasibility of implementation, signalling that the "findings will need to be weighed up by a number of related areas, ranging from policy to legal. For some solutions, confirmation of whether or not they could be implemented in a way that is suitable for a retail digital euro aimed at the general public would be necessary, taking into account issues such as safety, reliability, speed, convenience and cost efficiency."

Conclusions

In this paper, we analyse the ongoing debate surrounding cryptoassets, focusing in particular on digital coins and the potentially disruptive role of central bank digital currencies (CBDCs). We draw three main conclusions:

1. Neither investment service firms nor central banks can afford to ignore the inroads made by cryptoassets. However, there are still a number of questions about the intrinsic value of a broad number of these assets, implying risks for their

> Part of the problem lies with the lack of official or practical identification of some of these digital products within a specific financial asset category.

holders and for overall financial stability. Part of the problem lies with the lack of official or practical identification of some of these digital products within a specific financial asset category (*e.g.*, as a payment instrument, investment or store of value).

2. The financial institutions could play a balancing role in the adoption of purely digital cryptography, currencies and transaction systems using distributed ledger technology. There is a degree of agreement that the regulation of cryptoassets will accelerate in the coming years, with banks having a comparative advantage in terms of experience with regulatory compliance, reputation and privacy control. In the transition towards digital service platforms, encrypted assets and channels will be essential elements.

3. Central bank digital currencies (CBDCs) will be rolled out gradually across the various jurisdictions. In the eurozone, this will not occur before 2023. The ECB is considering a number of options and a system of citizen retail accounts (including deposits) at the central bank is the most feasible option. That class of CBDC would require the banks to rely more heavily on wholesale funding, which would have adverse implications for their margins. The impact should, however, be limited (up to 0.9% of ROE according to recent estimates) and implementation is unlikely to happen soon.

Notes

[1] For a synopsis of papers about this "evolutionary" theory of cryptoassets, refer to Bartolucci *et al.* (2018).

[2] The results of those technical experiments can be found at: https://www.ecb.europa.eu/pub/pdf/other/ecb.digitaleuroscopekeylearnings202107~564d89045e.en.pdf

Santiago Carbó Valverde and Francisco Rodríguez Fernández. University of Granada and Funcas

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The pandemic and its impact on the insurance business in Spain

The impact of the pandemic on the insurance industry was significant, if uneven, across both geographies and business lines. While the industry is showing signs of recovery, forecasts are predicated on the normalisation of claims and the continuation of financial market stability.

Ignacio Blasco, Daniel Manzano and Aitor Milner

Abstract: In 2020, the insurance sector sustained a real contraction in premium volumes of 1.3% compared to the pre-pandemic trendline growth of close to 3%, with much of this contraction concentrated in advanced economies. The decline in premium volumes in real terms was uneven across the various lines of business, with the life insurance segment falling by close to 4.5% in 2020. However, the non-life insurance business segment managed growth of 1.5%. As a result of this subsector divergence, the non-life insurance business now outweighs the life insurance business. So far this year, momentum in non-life insurance remains strong, with particularly robust growth in the health and multi-risk lines, while the contraction in motor insurance is slowing. Turning to the Spanish insurance sector, signs suggest it is riding out the pandemic's impact with relative ease, with the volumes for non-life recovering faster than initially expected. In this context, the trend in margins will be shaped by what happens to claims, which are expected to normalise. This is, however, based on the assumption that financial market stability continues.

Introduction

The pandemic brought the global economy to its heels, resulting in sharp contractions in GDP and employment. The unprecedented negative shock had a major impact on aggregate supply and demand. Although the intensity of the adverse shock has easily surpassed that of the Global Financial Crisis of 2008, the nature of the pandemic-induced crisis and the response to it by governments and institutions could not be more different, enabling, barring surprises, a much quicker return to pre-pandemic growth momentum.

The impact of the crisis has, however, differed greatly across sectors. The insurance industry, which is connected to every sector, was inevitably hit by the direct effects of the crisis and the transformations it initiated. Specifically, the insurance sector faced threats via three channels – the potential adverse impact on: (i) revenue (premiums); (ii) claims; and, (iii) the value of the asset portfolios held by insurers to support the technical provisions recorded for the various contingencies the sector covers. The latter risk materialised rapidly when the markets (bonds and equities) collapsed as soon as the pandemic was declared. However, with the passage of time, asset valuations have recovered, very remarkably in some cases, thanks to unprecedented and forceful governmental and institutional responses.

Given the insurance industry's relevance for economic and financial stability, this paper [1] synthesises the impact of the pandemic now that: (i) we have comparable, international sector data for 2020; and, (ii) the Spanish insurance companies have released earnings updates for the first half of 2021.

Impact of the pandemic on the insurance industry

The forward-looking report published annually by the Swiss Re Institute (2020) provides insight into the disruption wrought by the pandemic on the insurance industry. In the advanced economies, non-life insurance premiums have trended upwards in line with GDP over the previous three decades. Growth in life insurance premiums, however, has trailed GDP since the financial crisis of 2008, having grown at a factor significantly higher than GDP growth up until then.

Meanwhile, in emerging markets, both life and non-life had been growing significant faster than GDP, fuelled by low penetration (premiums/GDP) of insurance coverage in those countries, as well as the elasticity-to-income of over one that tends to define its purchase. As a result, those markets have witnessed a continuous and rapid reduction in the insurance gap relative to the advanced markets (albeit remaining very high), led by China, which accounts for half of the universe of emerging markets and in size is already second in the world, behind the US.

In advanced economies, real growth (net of inflation) in the non-life insurance business had been running at around 2% in recent years, while in life, growth was more subdued, at just under 1%. However, in emerging economies, that growth had been running at much higher thresholds, of 6%-8% in both instances. Globally, given the still relatively low weight of the emerging markets in the insurance business in terms of total premiums (less than 20% compared to a contribution to global GDP of close to 40%), the sector had been registering overall growth in recent years of close to 3%.

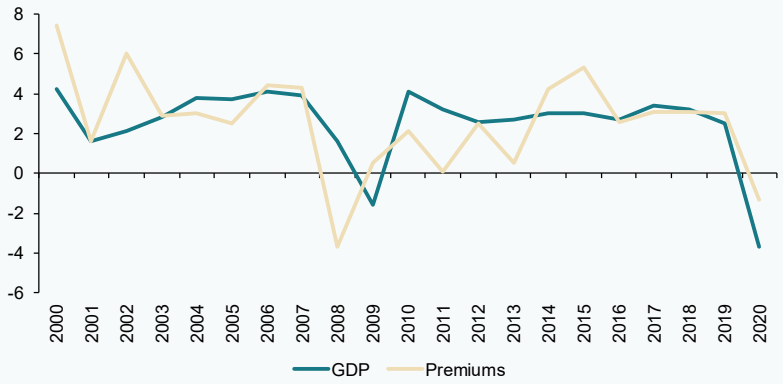
That momentum in the insurance market led to an abrupt halt as a result of the direct and indirect effects of the pandemic, albeit sustaining uneven impacts by line of business and market:

“ In the advanced economies, non-life insurance premiums have trended upwards in line with GDP over the previous three decades. ”

Exhibit 1

Global growth in GDP and premiums

Percentage



Source: Afi, based on Swiss Re Institute data.

- In 2020, the sector sustained a real contraction in premium volumes of 1.3% compared to the pre-pandemic trendline growth of close to 3%. Although that performance clearly marks a sudden downturn in revenue, it was significantly less than the contraction observed in global economic growth.

- The decline in premium volumes in real terms was not even across the various lines of business. In 2020, revenue in the life insurance segment fell by close to 4.5% (*vs.* average annual growth of 1.7% during the previous decade), evidencing far greater sensitivity to the pandemic. That adverse trend was fuelled by collateral damage related to the pandemic, beyond the mere impact of the collapse in economic activity. Note, moreover, that the bulk of the revenue generated in the life insurance business (nearly 80%) is generated in developed economies.

- In the non-life insurance business, despite the sharp contraction in the GDP, the segment managed growth of 1.5% (albeit below the 3.5% average of the previous decade). In other words, this segment proved far less sensitive to the pandemic shock than the life insurance business. Its sensitivity was also lower than its own long-run rate, although an accurate assessment requires factoring in 2021 premiums, given the usual time lag in responsiveness. All signs suggest, however, that the rollout of the vaccination drive and the massive stimulus packages articulated by the various governments, which facilitated an unusually quick V-shaped exit from the current crisis, should pave the way for overcoming, in just a few short quarters, the slowdown observed during the pandemic.

- From a geographical perspective, the trend has also been highly uneven from one region to the next. Specifically, the above-

> “In 2020, revenue in the life insurance segment fell by close to 4.5%, evidencing far greater sensitivity to the pandemic.”

Table 1 **Year-on-year growth in premiums in real terms**

Percentage

	2010-2019 average	2020	Chg.
Advanced			
Total	1.8	-1.8	-3.6
Non-life	2.8	1.5	-1.3
Life	0.8	-5.7	-6.5
Emerging markets			
Total	7.3	0.8	-6.5
Non-life	8.3	1.4	-6.9
Life	6.4	0.3	-6.1
Global			
Total	2.6	-1.3	-3.9
Non-life	3.5	1.5	-2.0
Life	1.7	-4.4	-6.1

Source: Afi, based on Swiss Re Institute data.

mentioned contraction of 1.3% in global insurance premiums, in real terms, was concentrated in the advanced economies (-1.8% *vs.* +1.8% on average during the previous decade), as growth in the emerging economies (spearheaded by China, which accounts for half of this group) simply eased, albeit sharply (+0.8% *vs.* +7.3% on average during the previous decade).

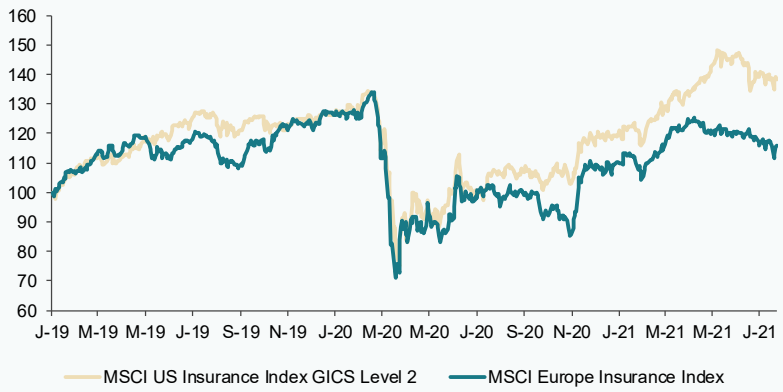
- The contrast with the Global Financial Crisis of 2008 is stark. The most noteworthy difference is the relatively smaller impact on the insurance business of this crisis in relation to the change in GDP. The contraction and recovery in GDP are both proving much sharper on this occasion. In line with the last crisis, however, the life insurance business is proving more sensitive than the non-life insurance segment. The 'transient' nature of the prevailing crisis is substantially responsible for these differing trends.

The relatively limited impact in terms of overall demand for insurance, coupled with evident signs of a more vigorous recovery than after the financial crisis, has also been accompanied by reasonably healthy trends in margins and profitability, with the drop in claims in certain lines (*e.g.*, motor insurance) as a result of the mobility restrictions offsetting the growth in claims in those lines more exposed to the adverse effects of the recession.

Elsewhere, as signalled in the Swiss Re Institute report, the pandemic has triggered the emergence of two important factors that are set to stimulate development of the insurance market in the long-run. A heightened aversion to risk has emerged, which in all probability will increase society's propensity to insure,

> "A heightened aversion to risk has emerged, which in all probability will increase society's propensity to insure, even in countries in which penetration was already high."

Exhibit 2 **Recent equity market performance in the insurance sector**



Source: Afi, based on Bloomberg data.

even in countries in which penetration was already high. The most obvious case would be health insurance alongside coverage against global supply chain disruption or protection against cyber risks.

Elsewhere, the arsenal of measures rolled out by governments and central banks around the world has also managed to stabilise the markets, whose rout initially threatened to have a serious impact on the value of insurance companies' portfolios. Although the risks have not fully dissipated, portfolio valuations have, in some cases, surpassed pre-pandemic thresholds. Credit spreads are relatively tranquil, and the stock markets have digested the initial shock.

More than a year after the onset of the pandemic, the insurance sector's equity market valuation is a good indicator of the investment community's current positive outlook for the business. As shown in the accompanying exhibit, the main international insurance sector indices have been closing in on pre-pandemic valuations (in Europe) and in some cases (US) have clearly overshot those levels.

Spanish insurance sector: Replica of global dynamics

In Spain, albeit marked by similar differences across business lines, the sector is also performing relatively well, based on our analysis of the key metrics for 2020, complemented by the latest figures available for this year. As shown in the accompanying table, the sector activity figures, measured by the volume of direct insurance premiums written, reveal a considerable overall

> "Non-life insurance products reported volume growth (+1.07%), despite the fact that the Spanish economy contracted by a resounding 10.8%."

contraction in 2020 (-8.30%). Note, however, that the contraction was shaped by an exceptional collapse (-20.78%) in life premiums.

That marked the fourth year in a row of contractions in life premiums against the backdrop of ultra-low interest rates, making life insurance coverage a harder sell. Logically, those headwinds blew much stronger in 2020 due to the effects of the pandemic: reduced sales capacity at the insurers; intensification of the central banks' zero-rate scenario; and, a greater propensity by households, faced by heightened pandemic-induced uncertainty, to channel their savings into cash (deposits) rather than the savings products traditionally marketed by the insurance sector.

Compared to the sharp contraction in premium volumes in the life insurance business, non-life insurance products reported volume growth (+1.07%), despite the fact that the Spanish economy contracted by a resounding 10.8%. Non-life insurance volumes continued to be spearheaded by health and multi-risk products, which even in recessionary times continued to display solid growth dynamics (+5.0% and +3.08%, respectively). The insurance products with a more cyclical component (motor and other lines) saw their volumes contract, however (-1.95% and -0.72%).

The combination of the two trends means that the non-life insurance business now outweighs the life insurance business. The former currently accounts for over 60% of annual premiums, whereas as recently as in 2016 the business was evenly split between the two lines.

During the first half of this year, even though the comparison is partially distorted by the effects of the lockdown during the second quarter of 2020, the life insurance business has recovered sharply (+9.20%), in both the personal protection and savings and retirement segments, with an intensity that is proving a pleasant surprise. It would be prudent, however, to wait for the data for the second half of the year to confirm the consistency of this recovery trend with a more like-for-like comparison. Certainly, the prevailing economic and financial conditions do not bode well for a significant recovery in the life-savings business, although the outlook for unit-linked policies, where investment

Table 2 **Estimated total volume of premiums written in the sector**

Millions of euros

Line	2019	2020	YoY change (%)	1H20	1H21	YoY change (%)
Total direct insurance	64,175	58,850	-8.30	29,918	31,558	5.48
Non-life	36,652	37,046	1.07	19,041	19,680	3.36
Motor	11,312	11,091	-1.95	5,671	5,667	-0.07
Health	8,936	9,383	5.00	4,694	4,919	4.79
Multi-risk	7,521	7,753	3.08	3,984	4,226	6.07
Other non-life	8,883	8,819	-0.72	4,692	4,868	3.75
Life	27,523	21,804	-20.78	10,877	11,878	9.20
Risk protection	4,865	4,829	-0.74	2,734	2,875	5.16
Savings	22,658	16,975	-25.08	8,144	9,007	10.60
Technical provisions - Life	194,786	193,826	-0.49	188,575	194,741	3.27

Source: ICEA.

> “In 2020, claims-to-premiums declined by around 10 percentage points and nearly 4 percentage points in motor and health, respectively.”

risk is borne by the policyholder, and life-protection is good.

In non-life insurance, the momentum remains strong (+3.36%), with particularly robust growth in the health and multi-risk lines (+4.79% and +6.07%). Meanwhile, the contraction in motor insurance is slowing (-0.07%), virtually replicating the 1H20 performance, with ‘other’ lines taking off (+3.75%). As a result, the sector is close to revising its pre-pandemic cruising speed without having sustained the delayed adverse impact that an economic shock typically has on the insurance business. In short, the non-life insurance business has registered uninterrupted growth, even when the pandemic was at its worst (2020). Forecasters expect that in 2022 the numbers will converge around the growth path that had been estimated for next year before the pandemic came to light. [2] In fact, premiums written in health and mixed insurance were nearly 10% higher year-on-year in 1H21. [3] Against that backdrop, it is reasonable to expect the health insurance line to lead the non-life insurance business in the not too distant future, relegating the segment’s long-standing leader, motor coverage, to second place.

In addition to strong sales of non-life insurance in 2020, [4] claims were exceptionally low in the top two sub-lines, motor and health, as a result of the effects of the lockdown and mobility restrictions. That had an extraordinary effect on the margins and profitability of the insurers active in those segments. As shown in the accompanying exhibits, claims-to-premiums declined by around 10 percentage points and nearly 4 percentage points in motor and health, respectively. That drove an exceptional increase in the technical result in both classes of insurance, in turn shaping the best technical result in the non-life segment in a decade in both absolute terms and as a percentage of premium volumes (up to 12.14%, compared to an average of 10% during the past decade). This is despite the economic slump and

Table 3

Insurers’ earnings performance in 2020

Million euros

(Data adjusted for 100%)	Result from retained insurance		Change (%)
	FY 19	FY 20	
Technical account			
Non-life	3,466	4,166	20.2
Motor	898	1,507	67.8
Multi-risk	534	472	-11.8
Health	631	944	49.5
Other non-life	1,403	1,245	-11.3
Life	2,397	2,125	-11.4
Total life and non-life	5,863	6,291	7.3
Non-technical account	4,970	5,797	16.6

Source: Afi, using ICEA data.

the growth in claims in classes such as civil liability, death and multi-risk.

That exceptional trend in non-life insurance offset the adverse trend in life whose technical result, as illustrated by the table, sustained a contraction of over 10% in 2020. So much so that in the year of the pandemic the overall profits of the Spanish insurers increased by 16.6%, the highest level in recent years. In fact, they reported a ROE of over 12%, up two points from 2019, the year before the pandemic, and the highest level since 2014.

In the first half of 2021, the extraordinarily low claims registered in motor and health have increased. Nevertheless, in motor insurance, they remain low by historical standards (67.31% *vs.* an average of 75% in the years prior to the pandemic). Meanwhile, claims in the multi-risk line reached highs for the last decade (72.32%), primarily on account of the unprecedented January snow storm. [5] As a result, in the first half of 2021, the overall non-life insurance technical result declined by 12.5%, albeit shaped by the extraordinarily strong result recorded during the same period of last year.

In life, the above-mentioned improvement in the first half of the year, coupled with favourable market dynamics, has paved the way for a much better earnings performance in this line, which has practically offset, in terms of both the technical and non-technical accounts, the dip in earnings in the non-life business during the period, so that the Spanish insurance sector ended up recording a similar volume of profits as it did in the first half of 2020. Although it is unlikely that by the end of 2021 the sector's earnings and profitability will be as strong as in 2020, this year should, nevertheless, prove a relatively good one.

It is worth highlighting the contrast between the earnings and profitability of the insurance sector in Spain relative to the banking industry (Manzano, 2017). Compared to the momentum in the insurance business, in 2020, the banks front-loaded the expected adverse impact of the pandemic on loan performance, such that it returned to loss-making territory, following the 'clean-up' of its assets in 2011 and 2012 and the fall and takeover of Banco Popular in 2017. That proactive provisioning strategy is, however, facilitating a significant margin recovery this year. Nevertheless, as shown in the exhibit, the long-run gap between the two sectors' returns, measured by ROE, is clearly set to continue.

In short, the Spanish insurance sector is riding out the impact of the pandemic with relative ease and all indicators suggest that

Table 4 **Insurers' earnings performance in 1H21**

Million euros

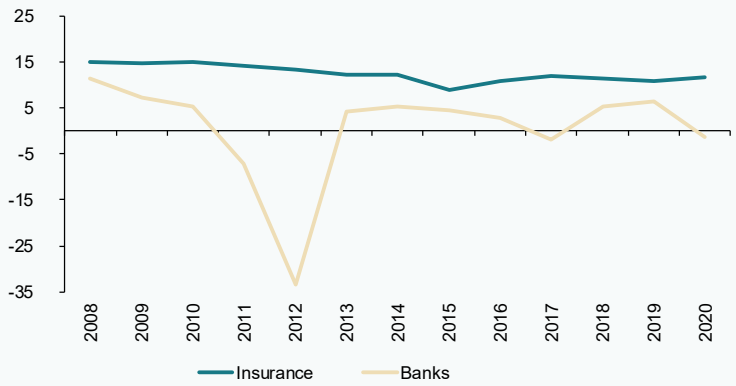
(Data adjusted for 100%)	Result from retained insurance (million euros)		Change (%)
	1H20	1H21	
Technical account			
Non-life	1,898	1,660	-12.5
Motor	829	615	-25.8
Multi-risk	242	70	-71.1
Health	360	260	-27.8
Other non-life	467	715	53.1
Life	1,129	1,293	14.5
Total life and non-life	3,027	2,953	-2.4
Non-technical account	2,385	2,435	2.1

Source: Afi, using ICEA data.

Exhibit 3

Trend in ROE - Banking versus insurance sectors in Spain

Percentage



Source: Afi.

non-life insurance business volumes are recovering, albeit at considerably different rates from one class to another, faster than initially expected. In this context, the trend in margins will be shaped by what happens to claims, which are expected to normalise. This is, however, based on the assumption that financial market stability continues, which seems relatively assured in the short-term at least given the scenario depicted by the central banks. That scenario, which includes forward rate guidance for the next 12 to 18 months, and the attendant protraction of negative real rates is not, however, the best recipe for a lift-off in savings and retirement cover in the form of traditional insurance products. That is expected to curb growth in the non-life business, which is likely to remain focused on the policyholder risk-bearing products, which are still underdeveloped in the Spanish market.

Notes

[1] It compiles and integrates the analysis conducted in a series of sector reports published by Afi.

[2] It is true that the higher rates of inflation are impacting some areas of insurance premiums and are bound to make a difference.

[3] The increase is partially attributable to collateral effects of the pandemic, driving health risk awareness; and, as a result of the impact of the lockdown, growth in home protection coverage (within multi-risk cover).

[4] Driven by the solidity in health and multi-risk, given the fact that premiums in motor and other non-life covers contracted.

[5] The significant drop in claims in "Other non-life" is noteworthy and is probably largely shaped by the much lower than initially

> "The Spanish insurance sector is riding out the impact of the pandemic with relative ease and all indicators suggest that non-life insurance business volumes are recovering."

expected rate of claims in the credit insurance areas due to the positive initial impact of the support measures deployed by the Spanish government in response to the pandemic (state guarantees, official loans, *etc.*)

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Spain's budget for 2022: An assessment

Spain's state budget for 2022 includes forecasts that appear markedly optimistic in comparison to other institutions' estimates. Despite this, an increase in structural spending is likely, which casts doubt on the government's ability to meet its deficit reduction targets.

Desiderio Romero-Jordán and José Félix Sanz

Abstract: There are three key aspects of Spain's state budget for 2022: the underlying macroeconomic forecasts; the public revenue and expenditure projections; and, the resulting deficit. The macroeconomic forecasts assume a 6.9% growth in private consumption, a 12.2% increase in investment, and export growth of 10.3%. However, other institutions have estimated GDP growth that is between 0.4 and 1.5 percentage points lower. In regards the second aspect, an unusually strong growth in revenue will be essential to delivering the forecasted deficit in 2021. The budget contemplates growth in non-financial income of 10.8% in 2022 to 279.32 billion euros. However, in the absence of the Next Generation-EU funds, that growth would narrow to 6.8%. Furthermore, various new taxes have yet to be approved and some of the temporary measures, such as the VAT cut on electricity, could be extended. Rising inflation is anticipated to increase structural spending by at least 8 billion euros in 2022. As for the level of public debt, the government is forecasting a reduction from 120% in 2020 to 119.5% in 2021 and 115.1% in 2022. In the absence of a credible fiscal consolidation plan, there are doubts about the feasibility of the deficit reduction path between 2021 and 2024.

> “Private consumption is expected to grow by 6.9% in 2022 with investment rebounding by 12.2% and exports improving by 10.3%.”

Budget scenario in 2022: Deficit and debt

Table 1 presents the macroeconomic forecasts used to calculate the 2022 budget. The government assumes that the global economy will shake off a contraction of 2.4% in 2020 to register growth of 4.5% in 2022. As for the eurozone, Spain's primary export market, growth is expected to reach 5.0% in 2021 and ease slightly to 4.6% in 2022. Against the backdrop of global economic recovery, Spain has drawn up its budget on the assumption that its GDP will register real growth of 6.5% in 2021 and 7.0% in 2022. That sharp growth in the Spanish economy is estimated using a dollar-euro exchange rate of 1.20, oil prices of around 60 euros per barrel and short- and long-term interest rates of -0.5% and +0.9%, respectively. However, those oil price assumptions could undershoot considering the steady growth sustained throughout 2021, with prices topping $80 per barrel in October. The macroeconomic forecasts assume three key growth drivers for the Spanish economy in 2022: (i) sharp expected growth in private consumption (6.9%); (ii) a strong rebound in investment (12.2%); and, (iii) positive trade dynamics, namely growth in exports of 10.3% in 2022. Framed by those assumptions, the

Table 1

Benchmark macroeconomic forecasts underpinning budget

	2020	2021	2022
Δ Global GDP (excluding eurozone)	-2.4	6.3	4.5
Δ GDP eurozone	-6.8	5.0	4.6
Dollar-euro exchange rate	1.10	1.20	1.20
Oil prices (€/bbl)	42.3	71.6	60.4
Δ Short-term interest rates	-0.4	-0.5	-0.5
Δ Long-term interest rates	0.4	0.5	0.9
Δ Private consumption	-12.0	8.0	6.9
Δ Public consumption	3.3	2.5	1.5
Δ Gross fixed capital formation	-11.4	7.1	12.2
Δ Domestic demand			
Δ Exports	-20.1	10.0	10.3
Δ Imports	-15.2	10.3	10.0
Δ GDP	-10.8	6.5	7.0
Δ GDP deflator	1.1	1.2	1.5
Unemployment rate	15.5	15.2	14.1

Source: Government of Spain (2021).

Table 2

GDP growth forecasts for 2021 and 2022 compared

	2021	Deviation with respect to the government's forecasts for 2021	2022	Deviation with respect to the government's forecasts for 2022
Government	6.5	---	7.0	---
Bank of Spain (September 2021)	6.3	-0.2	5.9	-1.1
AIReF (October 2021)	5.5	-1.0	6.3	-0.7
European Commission (November 2021)	4.6	-1.9	5.5	-1.5
IMF (October 2021)	5.7	-0.8	6.4	-0.6
OECD (September 2021)	6.8	+0.3	6.6	-0.4
Funcas (November 2021)	5.1	-1.4	6.0	-1.0
Funcas Panel (November 2021)	4.8	-1.7	5.7	-1.3
BBVA Research (October 2021)	5.2	-1.3	5.5	-1.5

Source: Funcas (2021).

government is forecasting unemployment at 14.1% in 2022.

Forecasts published by leading economic institutions and think tanks are considerably less optimistic. As shown in Table 2, the latest forecasts for 2021 are lower than those modelled by the government by between 0.2 points (Bank of Spain) and 1.9 points (European Commission). For 2022, the differences, with respect to the government's official update range from 0.4 points (OECD) to 1.5 points (most recent report from BBVA-Research and European Commission). October and November were marked by widespread forecast downgrades by the analyst community. For example, in just one month, the Funcas forecast for 2021 was cut from 6.3% to 5.1%.

The spate of downgrades was prompted by the downward revision to the second-quarter 2021 growth figure by Spain's Official Statistics Office, INE, from a preliminary estimate of 2.8% to 1.1%. The Spanish economy did not rebound as intensely as expected during the first half of the year on account of the restrictions induced by the third wave of COVID-19. Additionally, global supply chain friction has intensified, generating bottlenecks and driving intermediate goods prices higher, undermining the global economic recovery. Lastly, the downward revision to the forecasts also has to do with sluggish execution of the investments associated with the Next Generation-EU funds. According to BBVA-Research, Spain will be pressed to execute more than 10 billion euros of the 27 billion euros of NGEU funds budgeted by the government. [1] The revision of the 2021 forecasts evidences the significant degree of uncertainty surrounding the deficit and debt consolidation paths contemplated by the Spanish government between now and 2024, as shown in Table 3.

According to the government's roadmap, Spain will bring its public deficit down from 8.4% in 2021 to 3.2% in 2024. In just four years, the deficit will be cut by 5.2 percentage

Table 3

Trend in the public deficit

Level of government	2021	2022		2023	2024	Change 2021-2024
		Stability Programme APRIL	Non-financial spending limit JULY			
	(a)	(b)	(c)	(d)	(e)	(e)-(a)
Central government	-6.3	-3.5	-3.9	-3.1	-2.5	3.8
Regional government	-0.7	-0.6	-0.6	-0.4	-0.2	0.5
Local government	0.0	0.0	0.0	-0.0	+0.3	0.3
Social Security	-1.5	-0.8	-0.5	-0.5	-0.7	0.8
Total public deficit	-8.4	-5.0	-5.0	-4.0	-3.2	5.2

Source: Government of Spain (2021).

points of GDP to very close to the 3% threshold set by the European authorities. Of the expected 5.2 percentage point reduction, 3.8 percentage points would be covered by the central government, 0.8 percentage points by the Social Security and 0.5 percentage points by the regional governments (as the local authorities are expected to pass from deficit to surplus).

The deficit forecast gleaned from the 2022 budget, a draft of which was approved by the Spanish Cabinet on October 7th, coincides with that sent to Brussels in March as part of the updated version of its Stability Programme. However, a comparison with the deficit estimates provided in Table 4 shows that the most recent forecasts by the Bank of Spain, AIReF, Funcas and BBVA-Research point to a deficit this year of between 0.5 and 0.8 percentage points less than the government's estimate of 8.4%. That highly unusual and somewhat unexpected situation is attributable to a stronger recovery in tax revenue than would be expected on the basis of the growth elasticities used for previous budgets. For illustrative purposes, accumulated tax revenues during the first six months of 2021 (90,475 million euros) were 3.45% higher than those obtained during those same months in 2019 (87,456 million euros) (Tax Agency, 2021). This occurred despite the fact that the average per capita income level in the first two quarters of 2021 was 8.70% lower than in the same period in 2019 (OECD, 2021). AIReF (2021) has pinpointed three possible factors for the recovery in tax collection: (i) recovery in employment and income support policies; (ii) shift back into spending on goods that carry standard VAT rates in 2021 following the spike in expenditure on goods taxed at discounted rates in 2020; and, (iii) reporting of previously undeclared income.

> "According to the government's roadmap, Spain will bring its public deficit down from 8.4% in 2021 to 3.2% in 2024."

Table 4

Public deficit forecasts for 2021 and 2022 compared

	2021	Deviation with respect to the government's forecasts for 2021	2022	Deviation with respect to the government's forecasts for 2022
Government	-8.4	---	-5.0	---
Bank of Spain (September 2021)	-7.6	0.8	-4.3	0.7
AIReF (October 2021)	-7.9	0.5	-4.8	0.2
Funcas (November 2021)	-7.9	0.5	-6.0	-1.0
Funcas Panel (November 2021)	-7.9	0.5	-5.7	-0.7
BBVA Research (October 2021)	-7.7	0.7	-5.5	-0.5

Source: Funcas (2021).

The analysts and organizations are more divided when it comes to the 2022 deficit. Specifically, the Bank of Spain and AIReF are estimating a deficit of between 0.2 and 0.7 percentage points below the 5% estimated by the government (note, however, that the Bank of Spain's forecasts date to September). By contrast, BBVA-Research is estimating a deficit of 5.5% and the Funcas forecast is higher again, at 6.0%. Unfortunately, the dispersion around the forecasts casts doubt about the feasibility of the 5% deficit contemplated by the government for 2022, particularly as there is still no fiscal consolidation plan underpinning the deficit-cutting roadmap presented in Table 3. In other words, the downtrend in the deficit relies entirely on the cyclical impact on revenue and the gradual withdrawal of the COVID-19 mitigation measures. Note, however, that the challenges looming in terms of fiscal consolidation are only growing in light of the sharp increase of structural government spending, such as pensions. By way of illustration, every point of inflation implies an increase in public pension spending of approximately 1.6 billion euros. Pensioners will have to be compensated in 2021 by a payment equivalent to approximately 1.6 percentage points. [2] That will imply an increase in pension spending this year of around 2.6 billion euros. Elsewhere, Funcas is forecasting inflation of 2.5% in 2022, which would lift pension spending a further 4.0 billion euros. In short, structural spending will increase by at least 6.6 billion euros in 2022 merely as a result of the impact of inflationary pressures. As for the level of public debt, the government is forecasting a reduction from 120% in 2020 to 119.5% in 2021 and 115.1% in 2022. The 2021 and 2022 figures are higher than those estimated by the Bank of Spain, which is forecasting

"The downtrend in the deficit relies entirely on the cyclical impact on revenue and the gradual withdrawal of the COVID-19 mitigation measures."

117.9% and 114.3%, respectively. Either way, those levels of debt are 20 percentage points above 2019 levels of 95.5%. Correcting the significant prevailing deficit and debt imbalances is an unavoidable task that needs to be tackled head on by the Spanish government in the years to come.

Revenue forecasts

Table 5 provides the revenue forecasts for 2022 and the preliminary budget execution figures for 2021 for the key taxes. Those forecasts assume nominal GDP growth of 7.8% in 2021 and of 8.6% in 2022, with domestic demand increasing by over 8% both years. Against that backdrop, the budget contemplates growth in non-financial income of 10.8% in 2022 to 279.32 billion euros. However, in the absence of the Next Generation-EU funds, that growth would narrow to 6.8%. The sharp estimated growth in non-financial income in 2022 is underpinned by the following three drivers:

i) Growth of 6% in taxable income.

ii) The injection of 20 billion euros of European funds into the economy.

iii) The impact of changes in tax regulations, some of which rolled out in 2020 and 2021 but with effect in 2022.

With regard to the latter, the rate of personal income tax has been increased from 45% to 47% for incomes of over 300,000 euros. Also, the marginal rate on saving income was increased from 23% to 26% for incomes in excess of 200,000 euros. In addition, following recommendations made by AIReF, in 2022 the tax deduction for contributions to pension plans will be cut from 2,000 to 1,500 euros. That reform will deprive workers of one of their main avenues for channelling their long-term savings as the regulations governing the employer plans that will replace them have yet to be implemented. At any rate, this financial product has been erroneously discredited using not entirely valid arguments about the high cost in tax collection and the adverse impact on tax equity (Sanz and Romero, 2020). Framed by the economic crisis generated by COVID-19, the limits on the application of the objective estimation regime have been rolled over to 2022 for all activities other than farming, breeding and forestry activities, which have their own quantitative limit.

Turning to corporate income tax, the 2021 budget curtailed the scope of the exemption on dividends and income from share sales to companies with revenue of over 40 million euros (the exemption percentage was changed to 95%). The scope of the exemption for double international taxation was likewise limited. In 2022, framed by the international agreements reached by the OECD on taxation of multinational enterprises, the minimum rate on the taxable income of enterprises with revenue of over 20 million euros or those that pay tax under the tax consolidation regime, regardless of their revenue, will be set at 15%. The minimum rate for start-ups will be 10% (their statutory rate is 15%) and the minimum rate for banks and oil and gas exploration firms will be 18% (their statutory rate is 30%).

Regarding VAT, Spain has increased the rate applicable to all sugary and sweetened drinks from 10% to 21%. As with personal income tax, the limits on the application of the simplified regime and the farming, breeding and fishing regime have been rolled over to 2022. Meanwhile, two new taxes came into effect in 2021. The first is the tax on financial transactions, coined the Tobin tax, which is levied on the acquisition of shares in Spanish companies. The second is the digital services tax, popularly known as the Google tax, which is levied on online sales, online brokerage, the supply of digital content and the sale of data, among other services. Unrelated to the

> “The rate of personal income tax has been increased from 45% to 47% for incomes of over 300,000 euros.”

> "2022 tax revenue is estimated at 232.35 billion euros, up 8.1% from 2021 (on the basis of the execution figures available year-to-date)."

budget for 2021, in May, the Spanish Cabinet enacted two new environmental taxes as part of its goal of cutting waste generation by 30% in 2030 compared to 2010 levels. The first is a tax on single-use plastic containers (0.45 euros per kilogram). The second is a state tax on waste sent to landfills or for incineration, which some regional governments were already applying (40 euros per metric tonne in the case of municipal landfills). Both taxes are pending approval and entry into effect. Note, additionally, the possibility that some of the temporary measures in place could be rolled back in 2022, notable among which the reduction in VAT on electricity to 10%.

Factoring in all those regulatory developments, 2022 tax revenue is estimated at 232.35 billion euros, up 8.1% from 2021 (on the basis of the execution figures available year-to-date). The tax bases set to increase the most are those related with consumption, which are forecast to increase by 8.5% in 2022, compared to growth of 4.3% in the bases fuelled by income. The government expects personal income tax receipts to top the 100 billion euros threshold for the first time ever, thanks to growth in gross household income of 3.5%. In addition, the cyclical effect is expected to drive growth in receipts from the main taxes: 11.8% in corporate income tax; 9.5% in VAT and 8.2% in excise duty.

The information gleaned from the preliminary outturn report for 2021 suggests that tax revenue will be 7.11 billion less than initially

Table 5

Total non-financial public revenue

Item	Budget	Preliminary outturn	Budget	Change In euros	Change %	Change %	Change %
	2021	2021	2022				
	(a)	(b)	(c)	(b)-(a)	[(b)-(a)]/(a)	[(c)-(a)]/(a)	[(c)-(b)[/(b)
Personal income tax	94,190	93,803	100,132	-387	-0.4	6.3	6.7
Corporate income tax	21,720	21,889	24,477	169	0.8	12.7	11.8
VAT	72,220	69,099	75,651	-3,121	-4.3	4.8	9.5
Excise	21,809	20,183	21,843	-1,626	-7.5	0.2	8.2
Total direct tax	118,997	118,841	127,426	-156	-0.1	7.1	7.2
Total indirect tax	101,282	94,629	102,767	-6,653	-6.6	1.5	8.6
Total tax revenue	222,107	214,995	232,352	-7,112	-3.2	4.6	8.1
Total non-financial income	255,631	252,096	279,316	-3,535	-1.4	9.3	10.8

Source: Government of Spain (2021).

> “ The introduction of a minimum corporate income tax rate of 15%, coupled with the reduction in house rent deduction, will generate 421 million euros in 2021. ”

estimated this year. However, there are considerable differences from one tax to the next. The biggest shortfall is concentrated in the consumption taxes which between them are short by €6.65 billion euros. In contrast, the taxes levied on income are shy by 156 million euros. It is worth highlighting the trend in corporate income tax revenue where the preliminary figures suggest that receipts will actually top the original forecast (169 million euros).

According to calculations made by the Bank of Spain (2021), reproduced in Table 6, around 3 billion euros of the revenue shortfall in 2021 is attributable to a smaller than estimated impact from the tax regulation changes. Specifically, 400 million euros is attributable to lower impact fom: (i) the increase in VAT on sugary and sweetened drinks (100 million euros) and the corporate income tax exemption for overseas earnings (300 million euros). Furthermore, the two new taxes introduced in 2021 – on digital services and financial transactions – are now expected to generate around 1.3 billion euros, less than originally estimated. On top of all that, the 2021 budget was counting on 1.4 billion euros of environmental levies on plastic containers and waste collection that have not arrived as the taxes have not come into effect. Elsewhere, the regulatory changes due to take effect in 2022 are expected to have only a very limited impact on revenue. Specifically, the above-mentioned change in pension plan deductions is expected to generate additional tax revenue of 77 million euros. Meanwhile, the introduction of a minimum corporate income tax rate of 15%, coupled with the reduction

Table 6

Impact of changes in tax regulations on 2022 budget

		Initial budget	Preliminary outturn	Difference
Regulation changes originating from the 2021 budget				
VAT	Sugary drinks	340	240	100
Personal income tax	Rate for high earners	144	144	0
Corporate income tax	Exemption for overseas income	473	173	300
Other indirect	Insurance premium rate	465	465	0
Changes in tax regulations outside the 2021 budget				
Environmental taxes	Plastic containers	491	0	491
	Landfill waste	861	0	861
Other taxes	Digital services	965	165	800
	Financial transactions	850	340	510

Source: Bank of Spain (2021).

in house rent deduction, will generate 421 million euros in 2021.

Public expenditure

Table 7 shows consolidated state spending by category: basic services; social protection; priority goods; interventions of an economic nature; and, interventions of a general nature. The information presented in that table indicates that consolidated state expenditure across the above categories will reach 458.97 billion euros in 2022, up 0.6% from 2021 and that 52.6% will be managed by the state. Recall that those figures include the funds under the Recovery, Transformation and Resilience Plan (the Recovery Plan) and the Recovery Assistance for Cohesion and the Territories of Europe

Table 7

Consolidated General State Budget

Item	2021	Weight	2022	Weight	Δ 21/22
Basic public services	22,697	5.0	24,477	5.3	7.8
Justice	2,048	0.4	2,284	0.5	11.5
Defence	9,072	2.0	9,791	2.1	7.9
Citizen safety	9,694	2.1	10,149	2.2	4.7
Foreign policy	1,882	0.4	2,254	0.5	19.8
Social spending, 1+2	239,765	52.6	248,391	54.1	3.6
Social spending, without unemployment benefits	214,753	47.1	225,934	49.2	5.2
1. SOCIAL PROTECTION	226,394	49.6	235,173	51.2	3.9
Pensions	163,297	35.8	171,165	37.3	4.8
Other economic benefits	20,623	4.5	20,974	4.6	1.7
Social services	5,201	1.1	6,154	1.3	18.3
Employment assistance	7,405	1.6	7,648	1.7	3.3
Unemployment	25,012	5.5	22,457	4.9	-10.2
Housing	2,253	0.5	3,295	0.7	46.2
Social economy	104	0.0	143	0.0	37.5
Social security and migration	2,499	0.5	3,336	0.7	33.5
2. PRIORITY GOODS	13,371	2.9	13,218	2.9	-1.1
Health (without COVID-19 vaccines)	4,894	1.1	5,434	1.2	11.0
COVID-19 vaccines	2,436	0.5	1,172	0.3	-51.9
Education	4,893	1.1	5,023	1.1	2.7
Culture	1,148	0.3	1,589	0.3	38.4
3. ECONOMIC INITIATIVES	49,346	10.8	52,345	11.4	6.1
Agriculture, fishing and food	8,405	1.8	8,844	1.9	5.2
Manufacturing and energy	11,176	2.5	11,316	2.5	1.3
Trade	2,220	0.5	2,932	0.6	32.1
Transport subsidies	2,618	0.6	2,721	0.6	3.9
Infrastructure	11,473	2.5	11,841	2.6	3.2
R&D and civil innovation	11,484	2.5	12,360	2.7	7.6
R&D and military innovation	861	0.2	939	0.2	9.1
Other	1,108	0.2	1,393	0.3	25.7
4. GENERAL INITIATIVES	144,266	31.6	133,757	29.1	-7.3
Constitutional and government bodies	752	0.2	789	0.2	4.9
General services	39,705	8.7	30,453	6.6	-23.3
Tax authorities	1,564	0.3	1,611	0.4	3.0
Transfers to other levels of govt.	70,570	15.5	70,729	15.4	0.2
Public debt	31,675	6.9	30,175	6.6	-4.7
5. CHAPTERS 1 TO 8	456,074	100.0	458,970	100.0	0.6

Source: Government of Spain (2021).

> “ Unemployment benefits are expected to come down by 10.2% in 2022 thanks to the forecast reduction in the unemployment rate, from 15.2% to 14.1%. ”

(REACT-EU). Those programmes imply the advent of 27.63 billion euros in 2022 (26.63 billion euros in 2021).

The so-called basic services include spending on justice, defence, citizen safety and foreign policy, which between them will account for 5.3% of consolidated expenditure (1.78 billion euros) in 2022. Around 10% of the increase (182 million euros) will go to the 2030 Justice Plan which will facilitate the creation of new judicial units, among other initiatives. The essential component of public spending is that related to social spending, which includes pensions, unemployment benefits, education and housing and represents 54.1% of the total in the 2022 budget. The largest item is pension spending which in 2022 is set to reach a record level of 171.17 billion euros, up 7.87 billion euros from 2021. In the context of rising inflation, the growth in pension spending in 2022 will be driven by: (i) the compensation to be received by pensioners in January 2022 for the difference between forecast and real inflation in 2021; and, (ii) the increase in public-sector pensions in 2022 (2.3% for contributory pensions and 3% for non-contributory and minimum pensions). That increase will trigger a jump in structural public spending. That is a matter of great significance considering that the structural public deficit has been rising since 2015. Elsewhere, unemployment benefits are expected to come down by 10.2%, from 25.01 billion euros in 2021 to 22.46 billion euros in 2022 thanks to the forecast reduction in the unemployment rate, from 15.2% to 14.1%. Also, the budget contemplates earmarking 200 million euros to helping to finance rent for youth. That measure consists of a monthly grant of 250 euros for two years for youths aged between 18 and 35, so long as they earn a salary and their total income is less than three times IPREM (acronym in Spanish for the public income index), [3] which translates into maximum annual income of around 23,700 euros. One of the biggest weaknesses of that measure is that it fails to consider the significant differences in average rents across the various Spanish provinces.

Expenditure on priority goods (health, education and culture) is budgeted at 13.22 billion euros in total, down 1.1%. The weight of those headings in consolidated expenditure is small (2.9%), as health and education are spending functions transferred to the regional governments. Spending on culture includes a 400-euro voucher that will only benefit young people turning 18 in 2022. The high cost of that measure, 210 million euros, has generated controversy, given the scale of the public deficit at present. Health spending specifically includes expenditure on COVID-19 vaccines, estimated at 1.17 billion euros in 2022, which is around half of the 2021 cost. Expenses of an economic nature relate to a wide variety of policies, including industry, tourism, energy and R&D policies, and are budgeted at 52.35 billion euros in 2022, growth of 6.1%. Within this heading it is worth highlighting the cost of the heating vouchers, budgeted at 157 million euros, for vulnerable families at a time of record electricity prices. According

> “ It is worth highlighting the cost of the heating vouchers, budgeted at 157 million euros, for vulnerable families at a time of record electricity prices. ”

to the consumer protection association, OCU (2021), monthly electricity bills have increased by approximately 30% between 2020 and 2021. Spain will earmark 5.48 billion euros to boosting the competitiveness and sustainability of Spanish industry with a charge against the Recovery and Resilience Facility. It is also worth pointing out the sharp increase (32.1%) in the assignations to policies in the areas of trade, tourism and small business with the aim of making Spain's SMEs more competitive and bolstering the tourism sector in the wake of COVID-19. Lastly, the government is expecting its interest burden to come down from 31.68 billion in 2021 to 30.18 billion in 2022 as a result of the downtrend in interest rates, despite the fact that absolute debt levels have been increasing in 2020 and 2021. Spain's debt measured using the Excessive Deficit Procedure criteria amounted to 1.35 trillion euros at the end of 2020, rising to 1.42 billion euros by the end of June 2021.

Notes

[1] Spain Economic Outlook. Fourth Quarter 2021. https://www.bbvaresearch.com/publicaciones/situacion-espana-cuarto-trimestre-2021/

[2] Contributory pensions are set to increase by 0.9% in 2021 to adjust for inflation. However, Funcas puts inflation in 2021 at 2.9%.

[3] Used as the indicator for awarding aid, grants and unemployment benefits since 2004.

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Social Security budget for 2022: Short-term state support yet a need for structural reform

Thanks to the increase in contributions, the Social Security deficit is projected to fall to 0.5% in 2022. However, the long-term sustainability of Spain's Social Security will require action on both the expenditure and revenue side that goes beyond recent initiatives.

Eduardo Bandrés Moliné

Abstract: The two main developments in the Social Security budget for 2022 are: (i) the implementation of a new method for revaluation of pensions based on prior-year inflation; and, (ii) growth in state transfers to finance the so-called "undue" expenses being funded by the Social Security and help balance its accounts. Despite the sharp growth in pension spending, the increase in contributions from the state via taxes and the forecast growth in contributions, underpinned by the anticipated economic recovery, are expected to drive a reduction in the nominal deficit to 0.5% of GDP in 2022. However, the shortfall in system contributory revenue relative to expenditure will remain at 1.5% of GDP. Correction of the Social Security's structural deficit in the medium- and long-term will, therefore, require new measures that will necessarily have to combine actions on the revenue side (even after the recently proposed increase in employer contributions) with others on the spending side, with contributory pensions the primary focus of any future reforms.

> The system's overall non-financial income in 2022 is budgeted at 173.64 billion euros, up 10.2% from the revenue budgeted this year.

Introduction

The Social Security administration's 2022 budget contemplates non-financial expenditure of 179.81 billion euros, growth of 4.6% from 2021. In line with the nature of its functions, the provision of benefits to Spain's households accounts for the large part of that spending, 171.77 billion euros, which is equivalent to 95.5% of the total. In turn, the system's overall non-financial income in 2022 is budgeted at 173.64 billion euros, up 10.2% from the revenue budgeted this year. The main revenue sources are social security contributions, at 136.35 billion euros, followed by transfers by the state, at 36.18 billion euros.

The growth differential between revenue and non-financial expenditure (10.2% *vs.* 4.6%) is attributable to the forecast growth in revenue from contributions of 8.9% and in state transfers of 16.3%, figures that are significantly above the budgeted growth in benefits, of 4.4%. The Social Security deficit is budgeted at 14.29 billion euros in 2021 and is forecast to narrow to 6.17 billion euros next year.

Revenue and expenditure in 2022

A comparison between the revenue forecasts for 2021 and 2022 highlights, above all, the growth in national contributions and in transfers from the state (Table 1). The former calculation is based on the anticipated growth

Table 1

Consolidated Social Security Budget Revenue

Millions of euros

	Budget 2021	Budget 2022
Taxpayer contributions	125,144.3	136,344.7
By employers and employees	*116,349.8*	*127,589.5*
By jobless claims recipients	*8,794.5*	*8,755.2*
Levies, public prices and other income	1,143.0	925.0
Current transfers	31,163.4	36,227.4
From the state	*31,118.6*	*36,182.8*
From other bodies	*44.9*	*44.6*
Return on assets	35.8	25.8
Proceeds from asset sales	2.2	1.9
Capital transfers	58.9	114.7
SUM OF NON-FINANCIAL TRANSACTIONS	**157,547.6**	**173,639.5**
Financial assets	1,036.4	444.2
Financial liabilities	13,830.1	6,981.6
SUM OF FINANCIAL TRANSACTIONS	**14,866.5**	**7,425.8**
CONSOLIDATED BUDGETED REVENUE	**172,414.1**	**181,065.4**

Source: Informe Económico-Financiero a los Presupuestos de la Seguridad Social de 2022.

Table 2

Consolidated Social Security Budget Expenditure

Millions of euros

	Budget 2021	Budget 2022
Staff expenses	2,625.9	2,663.1
Purchase of goods and services	1,567.6	1,592.5
Finance costs	16.2	36.7
Current transfers	167,341.7	175,166.3
*Benefits**	*164,494.6*	*171,772.6*
Care provision	*2,252.6*	*2,802.0*
Other current transfers	*594.5*	*591.7*
Capital expenditure	286.5	348.5
Capital transfers	3.0	3.0
SUM OF NON-FINANCIAL TRANSACTIONS	**171,840.8**	**179,810.1**
NON-FINANCIAL TRANSACTIONS	**573.2**	**1,255.1**
CONSOLIDATED BUDGETED EXPENDITURE	**172,414.1**	**181,065.2**

**Includes transfers to the Basque and Navarre regions for non-contributory pensions.*

Source: Informe Económico-Financiero a los Presupuestos de la Seguridad Social de 2022.

in the number of contributors influenced by the economic recovery, measured in average earned income and across the upper earnings limit. This amount will rise by 1.7% to 4,139.40 euros a month. Meanwhile, the lower earnings limit will be adjusted for the increase in the minimum wage. As for state transfers, the growth stems from the amendment of the General Social Security Act in 2020, which sets new criteria for state transfers to the Social Security, framed by the principle of independence of financing sources.

On the spending side (Tables 2 and 3), the growth is attributable to contributory pensions and, to a far smaller degree, the increase in allocations to temporary disability and dependent care benefits. In the case of pensions, three factors underpin the budgeted growth in expenditure: (i) growth in the number of pensioners; (ii) a substitution effect (higher pensions paid to new pensioners relative to those exiting the system); and, (iii) pension revaluation. The fact that a higher number of people with entitlement to a pension will reach retirement age than the number expected to pass away, is expected to drive an increase in the number of pensioners of around 1% in 2022. Based on the monthly 2021 figures released to date, the substitution effect could amount to 1.5%. Lastly, the general pension increase approved by the government –at the average rate of change in CPI in the 12 months to December 2021– could result in a pension hike of around 2.5%. If those assumptions prove correct, spending on contributory pensions would increase by 5% in 2022, which is the figure contemplated in the Social Security budget. [1] At any rate, the ultimate magnitude of those effects could be affected by the impact

> “Three factors underpin the budgeted growth in expenditure: (i) growth in the number of pensioners; (ii) a substitution effect; and, (iii) pension revaluation.”

Table 3

Social Security benefits

Millions of euros

CONTRIBUTORY BENEFITS	Budget 2021	Budget 2022
Contributory pensions (excluding top-ups to meet min. threshold)	135,981.7	142,931.5
Temporary inability to work	9,986.1	10,818.1
Birth and care of children, risky pregnancies and breast-feeding, care for sick minors	3,240.1	3,377.6
Self-employed professionals: discontinuation of activity	712.8	75.1
Other economic benefits	367.9	362.5
SUM CONTRIBUTORY BENEFITS	**150,288.7**	**157,564.8**
NON-CONTRIBUTORY BENEFITS		
Top-ups to reach min. thresholds	7,064.6	7,064.4
Non-contributory pensions*	2,751.0	2,775.5
Minimum income scheme	2,988.4	2,966.1
Benefits for family protection and other	1,402.0	1,401.8
SUM NON-CONTRIBUTORY BENEFITS	**14,206.0**	**14,207.8**
TOTAL BENEFITS	**164,494.6**	**171,772.6**

**Includes transfers to the Basque and Navarre regions for non-contributory pensions.*

Source: Informe Económico-Financiero a los Presupuestos de la Seguridad Social de 2022.

of phase one of the pension reforms (currently going through Parliament) [2] on individuals' early retirement decisions.

As illustrated in the tables, in 2022, adjustments for inflation will be a key driver of pension spending. Based on the inflation figures through October 2021 (Funcas 2021a) and Funcas' forecasts for 2022, pensions will be increased by around 2.5%, or by around 3.6 billion euros, in 2022. In addition, the budget for 2021 has to be grossed up by the revaluation guarantee in effect this year, specifically for the difference between final inflation (2.5%) and the initial increase in pensions introduced at the start of the year (0.9%), *i.e.,* around 2.3 billion euros. In total, growth in spending by the Social Security is projected at around 5.9 billion euros, plus another 700 million euros in the state budget corresponding to the increase in the special pension scheme for civil servants for an overall increase in structural public spending of 6.6 billion euros.

Passage of the general state budget for 2022, a process which encompasses the Social Security's budget, also includes regulatory amendments that affect financial aspects of the pension system in different ways. In addition to the above-mentioned reform in the manner in which contributory pensions are adjusted for inflation, the government has updated the maximum amount (to 7,939 euros a year) of earned income for entitlement to minimum contributory pension top-ups,

> "In total, the Social Security's structural spending will grow by approximately 5.9 billion euros."

set new minimum pension thresholds (up 3% from those of last year) and increased by 3% the amount of non-contributory pensions to 5,808.6 euros per annum. In terms of social contributions, the government has increased the upper earnings limit for contributions, which now stands at 4,139.40 euros, and adjusted the minimum threshold by the percentage increase in the minimum wage.

State contributions to a balanced budget: Nominal deficit and contributory deficit

The state's current transfers to the Social Security are budgeted at 36.18 billion euros in 2022, up 16.3% from 2021 (Table 4). That considerable increase is framed by the effort to finance an increasingly higher percentage of the Social Security's benefits and services via taxes. A first block of transfers is intended to cover specific types of coverage and stems from the plan to separate sources of financing embarked on following approval of the Toledo Pact in 1995, followed up by Law 24/1997 on the consolidation and rationalisation of the Social Security system. The aim is for the state to cover the country's non-contributory benefits, which are related to income redistribution and poverty reduction goals. Those benefits include the contributory pension top-ups to reach a minimum threshold, non-contributory pensions, non-contributory family protection benefits, the minimum income scheme and coverage for care provision, among other benefits. In total, that first block sums to 17.79 billion euros in the 2022 budget, which is very similar to the 17.19 billion euros budgeted in 2021 (albeit with the budget for dependency care increasing by 23.4%).

The second block of transfers serves a dual purpose: financing the so-called "undue" expenses and providing support for the Social Security's financial equilibrium. That second objective was added for the first time in 2018,

Table 4

State transfers to the Social Security

Current transfers in millions of euros

	Budget 2021	Budget 2022
Transfers for specific non-contributory coverage		
Top-ups for contributory pensions to meet min. thresholds	7,075.0	7,075.0
Non-contributory pensions	2,751.0	2,772.0
Non-contributory family protection	1,414.0	1,414.0
Minimum income scheme	3,016.9	3,021.9
Care provision	2,349.2	2,897.9
Healthcare, social services and other transfers	583.5	606.1
Total transfers for specific coverage	**17,189.6**	**17,786.9**
Transfers to finance "undue expenses" and provide support for financial equilibrium		
Financing for contributory benefits for birth and care of children	2,784.7	2,879.6
Financing for SS contribution relief	1,779.4	1,690.0
Financing for other concepts	9,364.8	13,826.4
Total cost of compliance with 2020 Toledo Pact recommendations	**13,928.9**	**18,396.0**
TOTAL CURRENT TRANSFERS	**31,118.5**	**36,182.9**

Source: Informe Económico-Financiero a los Presupuestos de la Seguridad Social de 2022.

with an allocation of 1.33 billion euros, and was left in the next two budgets, with allocations of 1.93 billion and 1.33 billion euros in 2019 and 2020, respectively. The 2021 budget, however, changed the concept of the transfer and increased its size to 13.93 billion euros in order to comply with recommendation one of the 2020 Toledo Pact and guarantee the system's sustainability in the medium- and longer-term. The State Budget Act of 2021 introduced the requirement of an annual transfer to the Social Security to compensate it for the cost implied by reductions in contributions in certain regimes and for certain groups, the coverage of "gaps" in contributions for pension calculation purposes, and other concepts that were not initially specified. The 2022 budget increases the 2021 allocation by a further 32.1% to 18.4 billion euros.

However, the various uses given to these transfers do not only include coverage of "undue" expenses, understood as coverage of social or economic policy goals that do not fit within the classification as "contributory"; they also include other benefits that, while their scope of coverage and size may have been increasing, do form part of the contributory core of the Social Security system. It is reasonable to classify reductions in contributions, the implicit aid given for certain regimes and training contracts, the coverage of contribution "gaps" and the contributory pension top-ups initially conceived of to reduce the gender gap as "undue" functions. In all, they sum to 4.04 billion euros that should not affect contributory pensions. In our opinion, the remaining items, [3] such as the contributory benefit for the birth and care of children, early retirement without pension reduction coefficients, 'family' pensions and other contributory benefits, are part of the contributory core, and amount to 14.36 billion euros in total.

The Social Security's 2022 budget points to a deficit of 6.17 billion euros, down from a deficit of 14.29 billion euros budgeted in 2021. The reduction is attributable to the expected growth in revenue from contributions, coupled with the increase in current transfers from the state, which we have termed the second block of transfers (to cover "undue" expenses and support financial equilibrium). Of the total second block, 14.36 billion euros will generally go to the contributory arena and can therefore be associated with improving the Social Security's financial health, the "adjusted" deficit in 2022. A proxy for the contributory system deficit would be 20.53 billion euros which is equivalent to 1.6% of the GDP forecast that year by Funcas (2021b). Running the numbers in the same way for 2021, discounting the impact of COVID-19 on the transfers, the "adjusted" contributory deficit would be 2.1% of GDP, higher than that forecast for 2022 on account of lower revenue from contributions and lower transfers of a general nature.

The Social Security has been running a contributory deficit of around 1.5% of GDP on average since 2015. The increase in financing from taxes corrects some of the current imbalance but slightly undermines the contributory nature of the pension system, the largest component of Social Security spending. Meanwhile, the effort made by the state to ensure higher contributions on an ongoing basis will exert pressure on the finances of the state, which, according to the draft budget presented by the government (2021a), will end 2022 with a structural deficit of 4.5% of GDP.

> "Assuming that 14.36 billion euros of total state transfers are intended to bolster the system's financial equilibrium in a general manner, the "adjusted" deficit of the contributory system would be 20.53 billion euros, which is equivalent to 1.6% of GDP."

> "The Social Security has been running a contributory deficit of around 1.5% of GDP on average since 2015."

Pension system reform initiatives

The key initiatives of the pension reforms proposed by the government are included in the Operational Arrangements between Spain and the European Commission with respect to the country's Recovery, Transformation and Resilience Plan (European Commission, 2021). The government is pursuing the Social Security financial sustainability challenge from a dual perspective. In the short-term, the quest for a balanced budget is being tackled via an increase in state transfers, as stipulated in Law 11/2020 on the general state budget for 2021. The goal is to close the current deficit by covering all of the so-called "undue" expenses, estimated by the government at 22.87 billion euros, from taxes. In reality, to avoid a deficit in 2022, the generalist transfers (*i.e.,* not for specific coverage purposes) would have to exceed 24 billion euros.

In the medium- and longer-term, sustainability requires more far-reaching changes to the system's parameters. To start, the government would need to eliminate the two axes on which the reforms of 2013 were based: the pension revaluation index and the sustainability factor. The government has divided its strategy into two phases. The first phase entails a draft bill on ensuring pension purchasing power and other measures for reinforcing the financial and social sustainability of the public pension system. At the heart of that reform is an effort to align the effective age of retirement with the ordinary age for entitlement to a pension [4] by revising the pension reduction coefficients in the event of early retirement, whether voluntary or involuntary. In turn, the new measures seek to incentivise working past the state pension age and revise the terms of partial retirement, whereby people can take some of their pension and carry on working. Application of the reduction coefficients for early retirement to pension amounts rather than the regulatory base will affect the largest pensions which were not previously reduced (the changes will, however, be introduced on a staggered basis over a period of 10 years). The draft legislation is rounded out with a new mechanism for increasing pensions annually based on the average year-on-year rate of inflation during the 12 months to December.

In a second phase, as agreed with the two largest trade unions (but not with the employer associations), the former sustainability factor will be replaced with a so-called intergenerational equity mechanism made up of two components. The first is the provision to the Social Security Reserve Fund of an additional 0.6% of the contribution for common contingencies during a period of 10 years (between 2023 and 2032), with 0.5 percentage points charged to employers and 0.1 percentage points charged to employees. The Fund will be used to finance possible deviations in spending from 2033 with respect to the forecasts set down in the European Commission's Ageing Report, with an annual drawdown limit equivalent to 0.2% of GDP. The second component similarly kicks in from 2033 and involves a possible reduction in the percentage of pension spending over

> "The periodic review of the Social Security's accounts will require, in all probability, the adoption of measures on the spending side even before the end of the period for endowing the newly created Reserve Fund in 2032."

GDP or an increase in contribution rates in the event that the drawdown of Reserve Fund assets where not sufficient to cover possible shortfalls. The specifics of the proposal will be implemented by means of the amendment of the above Bill which is currently making its way through Parliament.

Pending further details about the reform proposals, two questions spring to mind. Firstly, even if the Social Security manages to balance its budget between 2023 and 2032 with the contributions from the state, it is very likely that pension spending will rise steadily to one percentage point of GDP. This would generate additional financing needs that would not be covered by ordinary contributions, trending virtually in line with GDP. Secondly, assuming average annual growth in the contribution bases for common contingencies of 4% (which is roughly the annual average this century), and assuming an average annual return of 3%, the Reserve Fund by the end of 2032 would stand at around 35 billion euros. In the 10 years after 2032, pension spending will continue to grow by an additional one or two percentage points of GDP. However, the Fund will only be sufficient to cover a very small part of the total projected growth in spending and the annual deficits generated. Therefore, the periodic review of the Social Security's accounts will require, in all probability, the adoption of measures on the spending side even before the end of the period for endowing the newly created Reserve Fund in 2032.

Notes

[1] Spain's Independent Authority for Fiscal Responsibility AIReF (2021), is estimating growth in the number of pensioners at 0.8%, a substitution effect of 1.1% and a pension revaluation of 2.1%, for overall growth in pension spending of 4%.

[2] Bill on ensuring pension purchasing power and other measures for reinforcing the financial and social sustainability of the public pension system.

[3] Refer to *Informe económico-financiero a los Presupuestos de la Seguridad Social de 2022,* p. 46.

[4] In 2022, the legal retirement age will be 66 years and two months for anyone who has been paying in for less than 37 years and six months, and 65 years for those who have paid in for more than 37 years and six months. The gradual application of the 2011 reforms will lift the legal age of retirement to 67 in 2027 for contributors paying in for less than 38 years and six months and 65 for everyone else. The effective retirement age in 2020 was 64.6 years.

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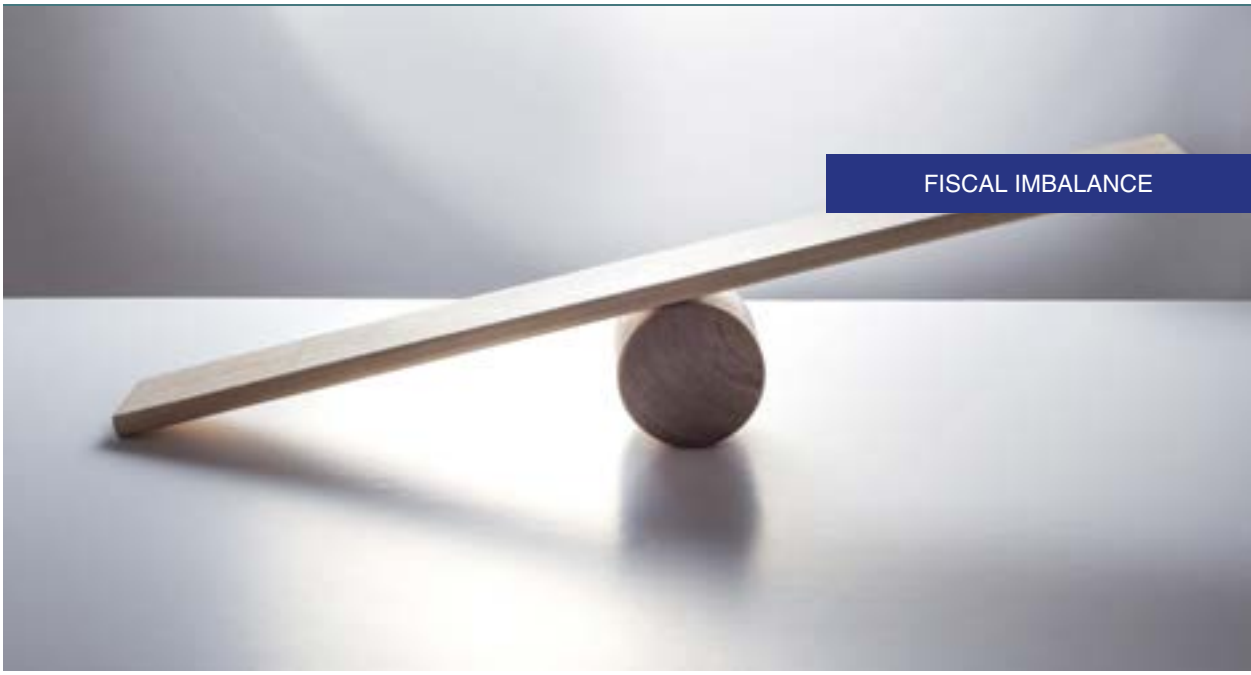


Fiscal imbalances in Spain: Progress and risks

Spain's 2020 deficit came in better than expected, with analysts' projections for 2021 more favourable than current government estimates. That said, risks relating to an ageing society, an entrenched structural deficit, and a permanent increase in spending mean Spain requires a credible fiscal consolidation plan.

Santiago Lago Peñas

Abstract: Spain's 2020 deficit came in at 10.1% of GDP, better than estimated but still topping the EU-27 ranking. Looking forward, there are reasons for optimism such as the Next Generation-EU funds, the recovery in tax collection, and extension of the Stability and Growth Pact escape clause, though these do come with notable downsides. While current forecasts for 2021's deficit are below the government's budgetary plan, the structural deficit could prove a weak spot in the coming years, as it is forecast to reach 4.5% in 2022. Regarding the Stability and Growth Pact, the most likely outcome is a reformist approach, with greater flexibility built around a medium-term debt anchor, a simple expenditure benchmark and a general escape clause. However, Spain cannot wait for the official rewriting of the EU's fiscal rules. As it stands, the country lacks a credible and ambitious medium-term budget strategy. Over the next five years, Spain's public deficit will not fall below 4.2% of GDP, while public debt will still be stuck at close to current levels. Curtailing spending will become even more difficult due to Spain's ageing society, with spending on dependency care, employment, education, health, science and innovation, government, and a fair transition likely to increase.

Introduction [1]

Despite the massive impact of the pandemic on Spain's economy and public finances, the public deficit is performing better than expected. The 2020 deficit came in lower than most analysts and the government itself were forecasting. Leaving aside financial assistance, the 2020 deficit was equivalent to 10.1% of GDP, helped by a narrower contraction in tax revenue than was expected given prior recessionary experience. Nevertheless, Spain's deficit still topped the EU-27 ranking.

In 2021, the fiscal imbalance will be reduced, again by more than was predicted a few short months ago. Despite inflationary dynamics, high energy prices and global supply chain friction, the Spanish economy is staging a significant recovery. Spain's hugely successful COVID-19 vaccination drive has shored up the normalisation of social and economic activity, which is having a positive impact on multiple economic indicators, including the deficit.

In addition to the economic risks affecting the supply side of the economy, the risk of new variants of the virus lingers. On the whole, however, things are looking moderately optimistic, a mood that extends to the public accounts. That optimism is underpinned by a combination of factors, including the disbursement of the Next Generation-EU funds, the recovery in tax collection, the decision to leave the Stability and Growth Pact escape clause activated for some time (paving the way for public deficits well in excess of the reference values) and the European Central Bank's extraordinary asset purchase programme.

That said, there is the risk of being lured into a false sense of comfort. The current situation is artificial and will come to an end. Every item on the list of grounds for optimism has its downside: the receipt of the NGEU funds is not guaranteed, but rather depends on Spain honouring the agreed-upon reform commitments; the growth in GDP and tax revenue will wane as business volumes return to pre-pandemic levels; the fiscal discipline rules will come back into play in 2023 and, even if they are reformulated in the interim, will once again constrain Spain; and, lastly, the ECB is set to gradually roll back its asset purchases over the coming months. Recall, moreover, that Spain's structural deficit and debt levels in 2019, before the onset of the pandemic, were among the worst in the EU-27 and there are latent risks of permanent increases in pandemic-induced expenditure that could complicate the budget consolidation strategy.

There are, as always, solutions. Tax reform and a broad assessment of the effectiveness of public spending to identify inefficiencies and potential savings are two high-potential tools for balancing Spain's accounts. It is imperative, however, to map out and negotiate a roadmap for budget accommodation and structural deficit elimination so that Spain is ready when the European fiscal and monetary authorities decide to withdraw their no-strings-attached protection.

The objectives of this paper are threefold. Firstly, to analyse Spanish public deficit dynamics and forecasts for 2021 and 2022. Secondly, to look at the likelihood of changes to the European fiscal rules and how they could shape budget consolidation in Spain. Finally, we list the risks that some of the public spending associated with the pandemic could become permanent, alongside an analysis of the impact of the gradual ageing of Spain's population.

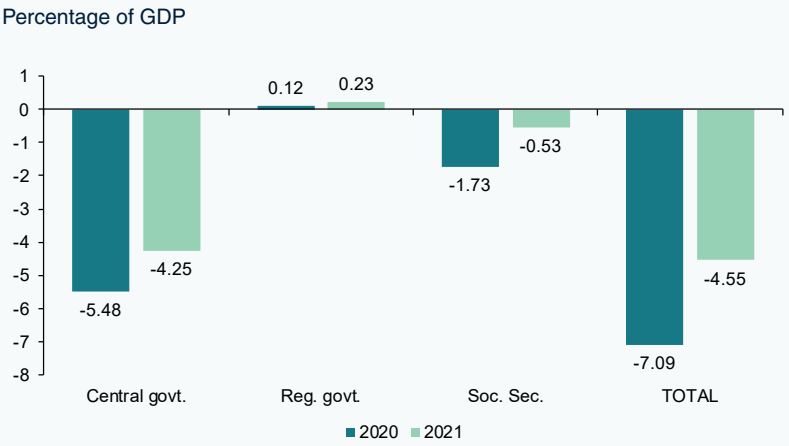
Spain's public deficit in 2021 and 2022

The budget outturn figures to August 2021 are provided in Exhibit 1. To put this year's figures into context, we also provide the

> "Leaving aside financial assistance, the 2020 deficit was equivalent to 10.1% of GDP."

Exhibit 1

Budget outturn. Deficit (-) or surplus (+) in the first eight months of 2021 by subsector, excluding local government



Source: Author's own elaboration based on Ministry of Finance and Civil Service figures (2021b).

numbers for 2020. The figures are expressed as a percentage of Spanish GDP. The deficit dynamics are healthier than in 2020. Leaving aside the local authorities, the deficit is down by 2.54% of GDP and the last few months of the year are also expected to be positive, as the cyclical component will improve, while the magnitude of the discretionary measures, particularly furlough scheme benefits, will be substantially lower. The trend at the regional government level for the first eight months of the year mirrors that of last year because the central government has rolled out a similar financial umbrella in 2021, with a slightly smaller extraordinary fund offset by the allocation of a significant portion of the NGEU funds received by Spain (Lago-Peñas, 2021).

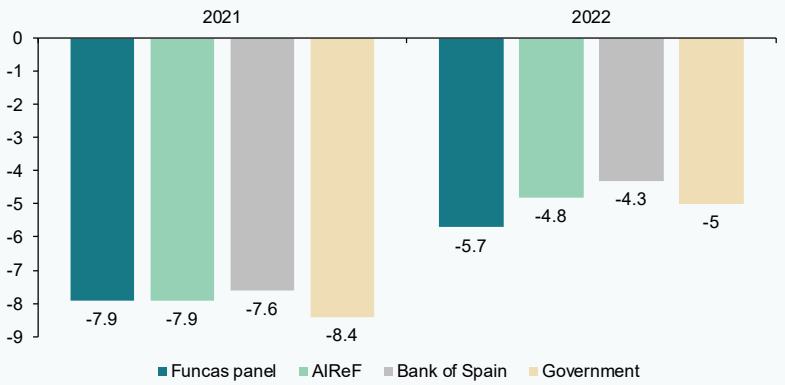
As a result, the forecasts for 2021 have been improving, with most analysts' forecasts currently lower than those of the government (Exhibit 2). Whereas the government is forecasting a deficit of 8.4%, the Funcas consensus (2021) forecast is for a deficit of 7.9%, with the independent fiscal institute, AIReF, also expecting a deficit of 7.9% and the Bank of Spain (baseline scenario) estimating it at a slightly lower 7.6%. However, no matter which forecaster proves nearer the mark, the scale of the improvement with respect to the 2020 deficit of 10.1% is below the automatic correction of the cyclical deficit expected. That means that the structural deficit, which ended 2019 at around 3%, has been increasing during the pandemic.

The 2022 forecasts endorse that hypothesis. The government's forecast (deficit of 5%) is worse than that of AIReF and the Bank of Spain, albeit better than the Funcas consensus forecast. If real GDP growth comes in above 6%, the output gap will be virtually zero in

> "If real GDP growth comes in above 6%, the output gap will be virtually zero in 2022 and the cyclical deficit should disappear."

Exhibit 2 **Forecasts for Spain's public deficit in 2021 and 2022**

Percentage of GDP



Sources: Author's own elaboration based on Ministry of Finance and Civil Service (2021a), Bank of Spain (2021), AIReF (2021c and 2021d) and Funcas (2021).

2022 and the cyclical deficit should disappear (Ministry of Finance and Civil Service, 2021a). The structural deficit is forecast at 4.5%, with the half-point difference to make up the 5% forecast by the government corresponding to one-offs and other temporary measures. The risks enumerated in the last section contribute to that increase in the structural deficit. However, significant increases in certain expenditure headings, including pensions (expected to increase by around 9 billion euros in 2022) and the minimum income scheme, will also play a part.

Outlook for changes in EU fiscal rules

In February 2020, the European Union embarked on a discussion about reforming its fiscal rules (European Commission, 2020). However, the pandemic disrupted these discussions. The need to act swiftly and forcefully pushed the authorities to activate the Stability and Growth Pact (SGP) escape clause and delay the debate until the health and economic situation provided some breathing room. On October 19th, 2021, the European Commission launched a period that will run until the end of the year for gathering all stakeholder contributions and opinions (European Commission, 2021) with the aim of coming up with a specific proposal, debating it and reaching an agreement by 2023.

It will be a complex and thorny debate, with several possible outcomes. That being said, the likeliest outcome is that the reformist approach, which would continue to pivot around quantitative rules, will prevail. The manifesto signed by the ministers of finance of Austria, Denmark, Latvia, Czech Republic, Finland, Netherlands, and Sweden in September 2021 drew a red line with respect to sticking with a rules-based system

> "The likeliest outcome is that the reformist approach, which would continue to pivot around quantitative rules, will prevail."

“ According to the IMF, over the next five years, Spain’s public deficit will not fall below 4.2% of GDP, while public debt will still be stuck at close to current levels in 2026 (117.5%). ”

(Blümel, 2021). Taking a similar approach, albeit with greater flexibility, the European Fiscal Board (2019) suggests replacing the current framework with three complementary elements: a medium-term debt anchor; a simple expenditure benchmark with a built-in debt brake; and, a general escape clause. In practice, those suggestions would translate into the transparent setting of different speeds for countries to bring their debt ratios back down to 60%. The current state of Spain’s public finances makes that asymmetric approach particularly interesting and obliges its government to seek alliances around proposals that fit with that approach.

Blanchard, Leandro and Zettelmeyer (2020) defend a more ground-breaking approach which would materialise in a break from the quantitative rules to embrace what they dub fiscal “norms”, such as article 126 of the European Union Treaty: “Member States shall avoid excessive government deficits”. “Excessiveness” would be identified using sophisticated stochastic tools analysing debt sustainability, with an independent organisation tasked with resolving disputes between member states and the European Commission. That approach fits with that proposed by AIReF (2021a), which calls for giving a bigger role to the national independent fiscal authorities and their singular fiscal policy design tools: medium-term scenario generation, sustainability analysis and impact assessments. The main weakness of that approach lies with the political aspect. It is a less defined approach and potentially laxer than the use of quantitative rules. It also depends more on *ad-hoc* technical analysis, something that would be hard to swallow for the above mentioned so-called frugal countries, among others.

At any rate, Spain cannot afford to wait until all the questions about the future of the EU’s fiscal rules are answered to articulate its strategy. Such a delay would risk leaving issues aside until it is too late to ensure Spain’s continued smooth access to the debt markets and scrutiny of the EC authorities. [2] The reality is that today Spain still lacks a credible and ambitious medium-term budget strategy, which is apparent in the International Monetary Fund’s mediocre projections (IMF, 2021). According to the IMF, over the next five years, Spain’s public deficit will not fall below 4.2% of GDP, while public debt will still be stuck at close to current levels in 2026 (117.5%).

Pandemic-induced spending could become permanent

A new risk associated with the pandemic looms large over Spain’s fiscal trajectory: the possibility that some of the public expenditure needed to tackle the crisis could become structural. Although it is hard to assign a probability to its materialisation, a few economists have attempted to do so. Díaz and Marín (2021) provide an estimate for each region of Spain of the percentage of regional spending (essentially healthcare and education) due to COVID-19 that could become structural. [3] In their opinion, of the 13.69 billion euros of incremental spending, 60% (8.21 billion euros) could become permanent, within a spectrum that runs from 47% in the Canaries to 68% in the Balearics. That figure is equivalent to 0.7% of Spanish GDP. The increase in permanent spending is estimated to have caused a deterioration in the regional governments’ structural deficit in 2020, which went from a shortfall of 0.5% of GDP to 1%, despite the fact that the overall deficit actually narrowed, from 0.6% to 0.2%.

Although much of that spending has already been executed and most of the regions are already in the process of debating and approving their budgets for 2022, it would

> “The change in the age structure of the population coupled with longer life expectancies will translate into significant growth in regional social spending which accounts for three quarters of all regional expenditure.”

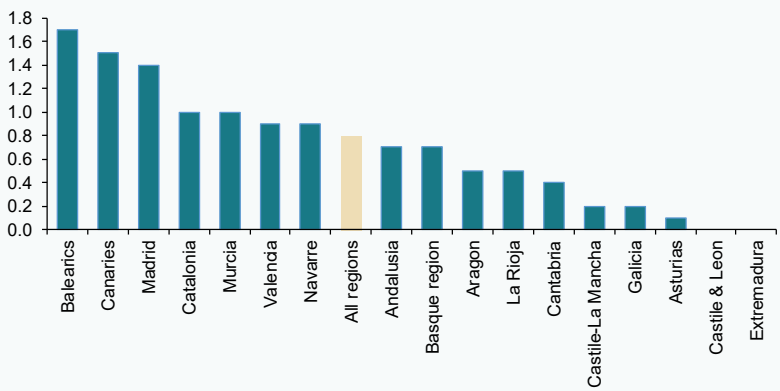
be advisable for those that have yet to do so to review the corresponding parts of their spending programmes to pinpoint the portion of expenditure that stems from their responses to COVID-19. That is the only way to avoid the inertia that so often characterises public spending and stop the budgeting process from limiting attention to other collective needs or driving indebtedness higher. Most importantly, the demographics forecasts point to pressure on regional spending, with a particularly strong upward trend in health spending.

The calculations run by Borraz (2021) shed light on this issue. Using a time horizon of 2030 and leaving aside other factors that exert upward pressure on spending (such as technological progress or the rollout of effective coverage of the dependency aid services), the change in the age structure of the population coupled with longer life expectancies will translate into significant growth in regional social spending (including education), which accounts for roughly three quarters of all regional expenditure. Moreover, the projected increase will be highly asymmetric: ageing will be more pronounced in the regions with younger populations today. Exhibit 3 depicts the real average annual change in social spending that is attributable exclusively to the demographic factor. Adjusted for inflation, that figure ranges from 1.7% in the Balearic Islands to 0% in Castile & Leon and Extremadura, with an average of 0.8% for all regions.

Exhibit 3

Simulation of the average annual change in social expenditure, by region, attributable to demographic factors, 2018-2030

Percentages



Source: Borraz (2021).

Table 1

Assessment of the risks implied by the Recovery, Transformation and Resilience Plan

	€ m
High	21,236
11. Modernisation of public administrations	4,315
19. National Plan for Digital Skills	3,593
17. Institutional reform and strengthening of the capacities of the national system of science, technology and innovation	3,380
22. Emergency Plan for the care economy and the strengthening of gender equality and social inclusion policies	2,492
23. New public policies for a dynamic, resilient and inclusive labour market	2,363
20. Strategic Plan for Vocational Training	2,076
21. Modernisation and digitisation of the education system, including early-life education (0-3 years)	1,648
18. Renewal and widening of the capabilities of the national health system	1,069
10. Just transition strategy	300
Medium	16,043
13. Fostering the growth of SMEs	4,894
12. Spain 2030 Industrial Policy	3,782
14. Plan of modernisation and competitiveness of the tourism sector	3,400
5. Preservation of the coast and water resources	2,091
3. Transformation and digitisation of the supply chain of the agri-food and fisheries system	1,051
24. Revaluation of the cultural sector	325
26. Development of the sport industry	300
25. Spain Audio-visual Hub	200
Low	32,249
2. Housing refurbishment and urban renewal plan	6,820
6. Sustainable, safe and connected mobility	6,667
1. Action plan to ensure sustainable, safe and connected mobility in urban and metropolitan areas	6,536
15. Digital Connectivity, cybersecurity and deployment of 5G	3,999
7. Rollout and integration of renewable energies	3,165
4. Conservation and restoration of ecosystems and their biodiversity	1,642
9. Roadmap for renewable hydrogen and its sectorial integration	1,555
8. Electrical infrastructure, promotion of smart networks and deployment of energy storage	1,365
16. National Strategy for Artificial Intelligence	500
TOTAL	69,528

Source: Author's own elaboration based on AIReF (2020b).

> “The biggest risks are concentrated in the parts of the Plan related with dependency care, employment, education, health, science and innovation, government, and a fair transition”

Lastly, AIReF (2021b) focuses its analysis on the risk that the one-off spending under the umbrella of Spain’s Recovery, Transformation and Resilience Plan will become permanent. The Plan will mobilise a total of 69.53 billion euros over the next few years, starting in 2021 and most significantly in 2022 and 2023. AIReF classifies the programmes comprising the Plan into three levels in accordance with the potential risk that their endowment could end up increasing structural spending without lining up the corresponding permanent financing (Table 1). The biggest risks are concentrated in the parts of the Plan related with dependency care, employment, education, health, science and innovation, government, and a fair transition.

Based on that classification of the programmes, a simple simulation is possible. Thirty-one per cent of expenditure will be channelled into projects categorised as high-risk and another 23% to projects classified as medium-risk. Even assuming that the low-risk programmes do not end up generating structural expenditure, that only 25% of the outlay for medium-risk programmes becomes structural, and that 50% of high-risk project spending becomes chronic, the impact would be 14.6 billion euros, which is equivalent to over one percentage point of GDP.

If the above risk materialisation percentages of 0%, 25% and 50% were raised to 25%, 50% and 75%, respectively, the impact would jump to 32 billion euros, which is over 2.5 percentage points of GDP. Given the magnitude of the potential risk, it is easy to understand AIReF’s (2021b) warning that “The time dimension of this plan requires mechanisms to be in place to ensure the financing over time of the reforms and investments initiated with the financing from NGEU funds”.

Notes

[1] The author would like to thank Diego Martínez López (UPO) for his valuable input and Alejandro Domínguez (GEN-UVigo) for his assistance.

[2] Lago Peñas (2021) outlines the need for and difficulties and opportunities implicit in articulating such a strategy in greater detail.

[3] Recall that in 2020, the regional governments were responsible for 62% of total public expenditure (https://www.igae.pap.hacienda.gob.es/sitios/igae/es-ES/Contabilidad/ContabilidadNacional/Publicaciones/Paginas/ianofinancierasTotal.aspx)

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Recent key developments in the area of Spanish financial regulation

Prepared by the Regulation and Research Department of the Spanish Confederation of Savings Banks (CECA)

Royal Decree-law enacting urgent measures to repair the damage caused by volcanic eruptions and facilitate the economic and social rehabilitation of La Palma (Royal Decree-law 20/2021, published in the *Official State Journal* on October 6th, 2021)

Royal Decree-law 20/2021 aims to adopt, with immediate effect, a raft of aid and support measures for those affected by the volcanic eruptions on La Palma, address their consequences and boost the area's economic, social, labour and environmental reconstruction. In the financial arena, the following measures stand out:

I. Suspension of interest and principal payment obligations –moratoria– on mortgaged and unmortgaged loans and credit facilities.

The legislation suspends interest and principal payment obligations on loans and credit facilities, irrespective of whether the borrowers are current on those payments, with or without mortgage collateral, granted to natural and legal persons affected by the seismic movements and volcanic eruptions that have been affecting La Palma since September 19th, 2021. It is a legally mandated deferral with an initial duration of six months, extendible by a further six months.

Borrowers must substantiate their entitlement to the benefits by providing the required supporting documentation. If the lender confirms at a later stage that the requirements were not effectively met, the moratorium may be annulled, and the bank may seek damages.

The moratorium applies automatically from when the application is presented and once granted, the lender is required to notify the Bank of Spain.

Any non-debtor guarantors, bondsmen or pledgors to which the suspension of debt service obligations under credit agreements, with or without mortgage collateral, apply may demand, during the term of the suspension, that the lender seek the assets of the main borrower before claiming their guarantees, even if they had expressly waived the benefit of execution under the terms of contract.

During the term of effectiveness of the suspension, the lender may not demand payment of any loan instalments, principal or interest, nor may it accrue any interest. Nor may the lender seek prepayment.

Effectiveness of the suspension does not require an agreement between the parties. When a loan whose servicing is suspended is secured by a property, the suspension must be raised to public deed and registered with the property registry. In addition, registration of the extension of the initial maturity will have full effect *vis-à-vis* any registered intermediate creditors even if the latter have not provided their express consent to the deferral.

Guarantees securing loans whose servicing is suspended, including pledges, deposits and sureties, shall remain intact *vis-à-vis* third parties without requiring the consent of pledgors or guarantors.

It is up to the Bank of Spain to supervise compliance by the banks affected by the new legal requirements, to which end the latter will have to send the former a monthly report with accumulated figures for the deferrals granted, their amount and the list of beneficiaries.

Lenders are unilaterally required to raise the suspension acknowledgement to public

deed and bring about the official recording of the policy or public deed in which acknowledgement of the suspension is documented.

Application of the suspension of mortgage debt during the six-month period contemplated will not be bound by the provisions of Spanish Law 5/2019 (of March 15th, 2019) governing real estate credit agreements.

II. Exceptional access to vested pension plan rights.

- The legislation establishes the exceptional instances in which pension plan beneficiaries may avail of their vested rights, during a period of nine months from effectiveness of the Royal Decree-law.
- The ceiling on drawdown per holder is the result of apportioning the annual rate of IPREM (acronym in Spanish for the public income index) for 12 payments in force for 2021, multiplied by three, over a maximum period of six months from the date of effectiveness of the Royal Decree-law.
- The reimbursement must be made by the management company within a deadline of seven working days from when the holder presents all the required supporting documentation. That deadline can be extended to 30 working days in the case of employer-sponsored pension plans.
- The above provision similarly applies to policy holders with assured savings plans, company savings plans and friendly society savings products.

Royal Decree-law rolling over the social protection measures for cases of social and economic vulnerability (Royal Decree-law 21/2021, published in the *Official State Journal* on October 27th, 2021)

Royal Decree-law 21/2021 extends several social protection measures given that, despite the nascent economic recovery, the most vulnerable remain at risk of social exclusion. The most noteworthy measures include:

- Extension until February 28th, 2022, of the measures allowing the suspension of home eviction and foreclosure proceedings for vulnerable persons and the possibility of compensating landlords and owners. Application of the extraordinary 6-month term extension has also been extended to contracts falling due between October 31st, 2021, and February 28th, 2022, without altering the existing terms and conditions, unless the parties have already come to another agreement.
- Landlords and owners can apply for compensation until March 31st, 2022.
- The possibility of applying for a rent moratorium or partial forgiveness, when the landlord is an established lessor or a public entity, has been extended until February 28th, 2022, on the terms stipulated in Royal Decree-law 11/2020.
- The home tenancy agreements entitled to the extraordinary six-month extension have been extended until February 28th, 2022, on the same terms and conditions as are already in force.
- The legislation updates the deadlines for the procedure for presenting, processing and ruling on applications filed by landlords or housing owners affected by Royal Decree 401/2021.

CNMV Circular on statistical reporting requirements for European Union money market funds (CNMV Circular 2/2021, published in the *Official State Journal* on October 8th, 2021)

The purpose of CNMV Circular 2/2021 is to introduce the changes outlined in the EMU1, EMU2, EMU3 and EMU4 statements in order to comply with Regulation (EU) 2021/379 of the European Central Bank, of January 22nd, 2021, on the balance sheet items of credit institutions and of the monetary financial institutions sector, and to repeal CNMV Circulars 2/1998, 1/2007 and 4/2014 and their subsequent amendments.

The changes made to the statements introduce new disclosure and breakdown requirements for the various headings. The new Circular is effective for annual periods beginning on or after January 1st, 2022.

CNMV Circular amending: (i) Circular 4/2013, of June 12th, 2013, stipulating the content requirements for annual reports on the remuneration of directors of listed public companies and the members of the boards of directors and control committees of savings banks that issue securities admitted to trading on official securities exchanges; and, (ii) Circular 5/2013, of June 12th, 2013, stipulating the content requirements for the annual corporate governance reports of listed public companies, savings banks and other entities that issue securities admitted to trading on official securities exchanges (Circular CNMV 3/2021, published in the *Official State Journal* on October 9th, 2021)

Circular 3/2021 makes the following changes to the contents of the annual director remuneration report:

- Entities must report on any deviation from the procedure for applying their remuneration policies, including any temporary exceptions in application there of on account of exceptional circumstances.
- Entities must include an explanation of how the remuneration accrued and vested during the reporting period contributes to their sustainable and long-term performance.
- A new section has been added to introduce comparisons between the annual amounts accrued and the year-on-year changes sustained during the last five years in the remuneration of each director, in the reporting entity's consolidated earnings and in the average remuneration of entities' (parents and their subsidiaries) non-director employees, expressed on a full-time equivalent basis.

The Circular also introduces changes to the annual corporate governance report as follows:

- It introduces the "double voting share" loyalty concept. Reporting entities must indicate whether the concept is contemplated in their bylaws, itemising the number of voting rights and number of significant shareholder votes that correspond to the additional votes awarded in exchange for their loyalty.
- Related-party transactions are further regulated in terms of definitions and criteria.
- Disclosures are required about the positions directors hold at other entities, regardless of whether those entities are listed, and reporting entities must also report on the other remunerated activities of their directors.
- The Circular repeals the obligation that entities other than public limited companies that issue securities traded on organised exchanges publish annual corporate governance reports.

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Spanish economic forecasts panel: November 2021*

Funcas Economic Trends and Statistics Department

Consensus GDP forecast for 2021 slashed to 4.8%

Since the last survey was published in September, the National Statistics Office has revised its second-quarter GDP figure sharply lower, from an initial estimate of 2.8% to 1.1%. It has also published the third-quarter GDP figure, which it has provisionally estimated at 2%. Both results are well below expectations, which envisioned that Spain would be one of the main engines of growth in the EU.

Moreover, the fourth quarter is being marked by the spike in inflation and supply disruptions. The analysts are expecting fourth-quarter growth of around 2% (Table 2), with several expecting the third-quarter figure to be revised upwards. Altogether, economic growth would reach 4.8% in 2021, down 1.4 percentage points from the September consensus estimate. All of the analysts have cut their growth forecasts since the last Panel.

The consensus forecast for 2022 has been cut to 5.7%

The forecast for 2022 has also been trimmed from 6.1% to 5.7%. The outlook is for quarterly growth of around 1%. In general, the 2022 forecasts assume that energy and commodity prices will remain high until the spring, at which point they will start to come down. The assumption made by most of the analysts is that Spain will execute around 20 billion euros of the NGEU funds next year.

Fresh upward revision to CPI forecasts

In October, headline inflation increased to 5.4%, fuelled by three factors: (i) the higher cost of energy products – electricity, gas and fuel; (ii) the return to pre-pandemic price levels in certain services that last year suffered price corrections as a result of the crisis – notably international tourist packages and hotels; and, (iii) some passthrough of higher production costs on end prices of certain food and consumer goods products.

In this survey, the consensus inflation forecast has risen again, to an annual average of 2.9% this year and 2.4% next year, 0.5pp and 0.8pp above the September forecasts, respectively. The forecasts for core inflation are also higher at 0.8% and 1.4% for 2021 and 2022, respectively.

The year-on-year rate of inflation forecast for December this year is 5.2%, and 1.1% in December 2022 (Table 3).

Improved unemployment projections

The results of the third-quarter labour force survey were good, despite the fact that economic growth was slower than expected. The number of people in employment increased by 1.3%, permitting a decline in unemployment by 2.4%, despite an increase in the active population as a result of an increase in the participation rate. The unemployment rate has been brought down to 14.6%, 1.7 percentage points below that of 3Q20. The current forecast for the average annual rate in 2021 is 15.2%, down 0.4pp from our September survey. For 2022, the consensus forecast stands at 14.4%, down 0.3pp.

The forecasts for growth in GDP, job creation and wage compensation yield implied forecasts for growth in productivity and unit labour costs (ULC). Productivity is expected to decline by 0.5% this year (the September survey pointed to gains) and to increase by 2.3% in 2022. ULCs, meanwhile, are forecast to rise by 0.7% in 2021 and fall back by 0.5% in 2022, having risen sharply in 2020, although the trend in these variables should be interpreted with caution.

Solid trade surplus

The current account surplus stood at 5.5 billion euros as of August, up 1 billion euros by comparison with the same period of 2020. The sum of the current and capital surpluses is 10.2 billion euros, up by 3.6 billion euros.

The consensus forecasts for the current account surplus have barely changed: 1% of GDP in 2021, rising to 1.2% in 2022.

The public deficit is expected to come in below the government's forecast

The fiscal deficit, excluding local authorities, amounted to 54.97 billion euros in the first eight months of 2021, compared to 79.48 billion euros in the same period of 2020. That improvement has been shaped significantly by the extraordinarily positive trend in tax revenue, which is running almost 20 billion euros higher than in the same period of 2020 and even 5.7 billion euros higher than the 2019 figure. National social security contributions are also tracking well ahead of expectations, up 3.7 billion euros from the same period of 2020 and 4.4 billion euros better than in 2019.

The consensus forecast is for a public deficit of 7.9% of GDP this year, down 0.2pp from the September survey, despite the diminished growth prospects. That forecast is better than the government's projection of 8.4% of GDP (as embedded in September budget plans).

Next year, however, the consensus forecast is higher than the government's deficit target: 5.7% *versus* the 5% set down in the budget bill.

Downturn in the international context due to supply chain disruptions and escalating energy costs

The pervasiveness of bottlenecks, which are hitting the advanced economies particularly hard, along with the escalating cost of energy, are acting as a drain on the global economic recovery, while intensifying inflationary pressures. Another source of weakness is the bursting of the property bubble in China. All of which has prompted the IMF in its autumn report to cut its growth forecasts and raise its inflation estimates for 2021.

Indicators suggest that these trends will persist in the short-term. According to the global PMI readings, production costs continue to rise, particularly in manufacturing. Supply disruptions and rising energy prices are driving delays in the production of cars and all sorts of consumer goods, while nudging shopping basket prices higher and undermining the rebound in demand which was expected via the release of the precautionary savings amassed during the crisis.

The US economy is proving to be one of the hardest hit by the bottlenecks due to the momentum in demand as a result of the cash transfer programme and other fiscal stimulus measures. Headline CPI increased by 6.2% in October, with core inflation at 4.6%. However, the European economy is also suffering. Inflation topped 4.1% in October, up from 3% in August (the most recent figure available prior to the last survey), shaped largely by the rise in electricity and fuel prices. Core inflation was a little over 2%, up half a point from August.

The analysts' forecasts reflect these trends: they are getting less optimistic about the international context. The difference between positive and negative opinions about the European economy is down to 3, from 10 in September. Likewise, the number of analysts expecting a deterioration in the coming months is increasing. Outside the EU, fewer analysts rate the context as favourable relative to those who see it as unfavourable (3 *versus* 10), a turnaround since September (9 *versus* 4). Most believe that the current climate will remain the same, or even get worse, in the months to come.

The uptick in inflation is complicating the central banks' task

The main advanced economy central banks see the spike in inflation as a transitory phenomenon underpinned by reversible factors, such as the growth in semiconductor prices and tightening caused by the abrupt nature of the global economic recovery. However, faced with the intensification of inflationary pressures, monetary authorities acknowledge that the return to a trajectory consistent with the stability targets may take longer than expected, increasing the risks of second-round effects. By way of prevention, some central banks have increased their benchmark rates (Australia, Norway and Poland). The Federal Reserve, meanwhile, has brought forward its timeline for rolling back its debt purchase programme. And the ECB is expected to announce a similar roadmap, albeit more gradual than on the other side of the Atlantic.

The markets have begun to incorporate the shift in inflation expectations. The yield on Spain's 10Y bonds is close to 0.5%, which is 15 basis points higher than in September, and the spread over the comparable German bond has widened slightly. 12-month EURIBOR has barely budged, evidencing the stability in ECB benchmark rates, particularly the rate on the deposit facility, anchored at -0.5% in the short-term. However longer-term interest rates

are beginning to tick higher, though still remaining at low levels.

Against that backdrop, the analysts believe that market rates will continue to climb higher throughout the projection period. The yield on 10Y public bonds is expected to increase to 0.79% by year-end 2022, up from a forecast 0.65% as per the September survey.

Euro depreciation

Given the prospect of more pronounced monetary tightening in the US than in Europe, the euro has tended to depreciate since the last survey. The analysts expect the euro to trade at under $1.20 throughout the entire projection period (Table 2).

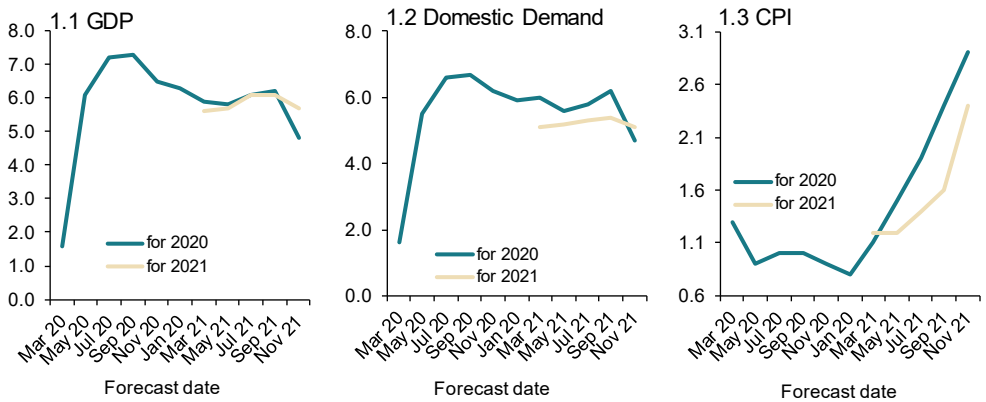
Macroeconomic policy should remain expansionary

The analysts unanimously consider that both monetary and fiscal policy are expansionary and nearly all of them believe they should remain so for the coming months (Table 4). No changes of substance are expected in ECB benchmark rates until the end of 2022.

Exhibit 1

Change in forecasts (Consensus values)

Annual rates in %



Source: Funcas Panel of Forecasts.

** The Spanish Economic Forecasts Panel is a survey run by Funcas which consults the 20 research departments listed in Table 1. The survey, which dates back to 1999, is published bi-monthly in the months of January, March, May, July, September and November. The responses to the survey are used to produce a "consensus" forecast, which is calculated as the arithmetic mean of the 20 individual contributions. The forecasts of the Spanish Government, the Bank of Spain, and the main international organisations are also included for comparison, but do not form part of the consensus forecast.*

Spanish economic forecasts panel: November 2021*

Funcas Economic Trends and Statistics Department

Table 1

Economic Forecasts for Spain – November 2021

Average year-on-year change, as a percentage, unless otherwise stated

	GDP		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery and capital goods		GFCF construction		Domestic demand[3]	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Analistas Financieros Internacionales (AFI)	4.5	6.0	6.2	4.9	2.8	2.9	3.6	8.2	6.2	8.5	2.0	8.6	4.8	5.1
Axesor Rating	4.7	5.9	4.1	5.3	3.2	2.3	3.2	5.3	--	--	--	--	--	--
BBVA Research	5.2	5.5	7.1	6.4	3.2	2.2	2.2	12.3	10.4	10.0	-3.2	14.3	5.2	6.3
CaixaBank Research	5.0	6.2	6.0	5.3	3.2	1.0	4.4	10.0	13.4	8.0	-1.0	11.0	5.6	5.2
Cámara de Comercio de España	4.7	5.5	4.8	4.0	3.0	2.3	3.3	9.0	13.0	10.6	-2.8	6.2	4.5	4.7
Cemex	4.7	5.9	4.8	6.1	3.5	2.5	4.8	8.5	12.8	5.6	0.5	11.4	4.6	5.7
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.3	6.1	5.7	5.9	3.4	2.1	4.9	8.1	11.7	8.3	1.1	10.3	4.9	5.3
Centro de Predicción Económica (CEPREDE-UAM)	5.2	6.7	4.5	5.0	3.1	1.1	5.3	8.2	17.8	9.2	-1.5	8.8	4.6	5.1
CEOE	4.8	5.0	4.4	5.9	3.1	2.2	3.7	4.5	14.8	8.1	-3.1	2.4	4.3	3.8
Equipo Económico (Ee)	4.7	5.3	3.7	4.6	2.4	2.8	5.6	7.1	4.5	7.5	6.0	8.2	4.0	4.7
Funcas	5.1	6.0	5.0	5.5	3.7	2.6	4.7	8.6	9.2	10.4	0.5	9.3	4.8	5.4
Instituto Complutense de Análisis Económico (ICAE-UCM)	4.8	6.2	4.6	6.5	3.1	1.7	4.7	7.2	15.4	8.8	-1.5	7.5	5.0	5.4
Instituto de Estudios Económicos (IEE)	4.6	4.7	4.3	5.9	3.1	2.2	3.3	2.8	13.9	5.5	-3.2	0.9	4.1	3.5
Intermoney	5.1	6.2	5.4	4.9	3.1	2.0	4.2	10.2	15.3	12.7	-2.1	10.5	4.6	5.3
Mapfre Economics	5.7	6.2	7.0	6.9	3.7	2.0	4.5	7.8	--	--	--	--	5.8	5.7
Oxford Economics	4.4	5.7	4.5	5.8	3.1	1.7	3.5	8.2	4.2	5.8	-4.5	4.4	4.3	5.5
Repsol	4.7	5.2	5.3	3.3	3.4	2.4	4.4	6.0	16.8	7.6	-2.3	5.4	4.3	3.6
Santander	4.6	5.8	4.5	4.0	3.0	0.5	4.0	10.6	15.1	14.4	-2.4	7.0	4.3	4.4
Metyis	4.3	5.2	5.1	5.8	3.2	2.0	3.1	9.2	16.0	9.4	-2.0	9.6	4.3	5.6
Universidad Loyola Andalucía	4.6	5.1	5.7	5.1	3.4	2.9	6.9	9.3	16.3	9.5	-1.2	9.5	4.6	6.5
CONSENSUS (AVERAGE)	4.8	5.7	5.1	5.3	3.2	2.1	4.2	8.1	12.6	8.9	-1.2	8.1	4.7	5.1
Maximum	5.7	6.7	7.1	6.9	3.7	2.9	6.9	12.3	17.8	14.4	6.0	14.3	5.8	6.5
Minimum	4.3	4.7	3.7	3.3	2.4	0.5	2.2	2.8	4.2	5.5	-4.5	0.9	4.0	3.5
Change on 2 months earlier[1]	-1.4	-0.4	-2.5	-0.1	0.3	-0.2	-2.4	-1.1	1.5	0.3	-5.1	-2.2	-1.5	-0.3
- Rise[2]	0	8	1	9	16	6	1	6	11	8	0	5	1	9
- Drop[2]	20	12	19	9	4	12	19	14	6	9	18	12	18	10
Change on 6 months earlier[1]	-1.0	0.0	-1.1	-0.4	-0.2	0.0	-2.9	0.1	0.9	1.3	-5.9	-0.8	-0.9	-0.1
Memorandum items:														
Government (July 2021)	6.5	7.0	7.3	6.9	2.5	1.5	9.0	12.4	16.5	18.3	6.1	10.4	6.5	6.7
Bank of Spain (September 2021)	6.3	5.9	9.6	4.3	2.2	0.2	5.8	10.5	--	--	--	--	7.0	4.7
EC (November 2021)	4.6	5.5	4.8	5.2	3.3	2.7	3.7	7.4	15.0	8.0	-2.7	7.6	4.2	5.0
IMF (October 2021)	5.7	6.4	5.9	5.1	3.2	0.8	6.4	9.9	--	--	--	--	--	--
OECD (September 2021)	6.8	6.6	--	--	--	--	--	--	--	--	--	--	--	--

[1] Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).

[2] Number of panellists revising their forecast upwards (or downwards) since two months earlier.

[3] Contribution to GDP growth, in percentage points.

Table 1 (Continued)

Economic Forecasts for Spain – November 2021

Average year-on-year change, as a percentage, unless otherwise stated

	Exports of goods & services		Imports of goods & services		CPI (annual av.)		Core CPI (annual av.)		Wage earnings[3]		Jobs[4]		Unempl. (% labour force)		C/A bal. of payments (% of GDP)[5]		Gen. gov. bal. (% of GDP)[6]	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Analistas Financieros Internacionales (AFI)	11.0	10.0	12.5	7.3	2.8	2.1	0.6	1.4	--	--	6.8	2.8	15.2	14.4	0.8	1.1	-7.9	-4.9
Axesor Rating	11.0	13.6	11.6	10.0	2.9	2.4	1.4	1.1	--	--	--	--	15.7	14.9	0.5	1.1	-8.5	-6.0
BBVA Research	13.7	13.9	14.4	17.4	2.5	1.8	0.6	1.4	0.7	3.6	5.1	2.6	15.0	14.0	0.7	-0.2	-7.0	-5.3
CaixaBank Research	11.3	9.9	12.4	7.0	2.4	1.7	0.6	1.5	0.1	2.4	5.5	3.8	15.1	14.0	1.5	1.6	-8.2	-5.6
Cámara de Comercio de España	12.6	11.6	10.7	9.7	2.7	2.6	0.6	1.5	--	--	4.8	4.9	15.3	14.4	1.1	1.2	-8.0	-6.3
Cemex	11.6	12.8	11.7	12.8	2.9	2.3	0.6	1.2	--	--	5.5	3.0	--	--	1.0	1.5	-7.9	-5.5
Centro de Estudios Economía de Madrid (CEEM-URJC)	12.9	14.5	12.0	12.9	3.0	2.7	0.8	1.9	--	--	3.9	3.0	15.2	14.7	1.1	1.3	-8.7	-5.8
Centro de Predicción Económica (CEPREDE-UAM)	12.6	13.6	11.0	9.2	2.9	2.3	--	--	-0.5	1.2	6.2	5.0	15.0	14.0	1.2	1.5	-7.1	-3.3
CEOE	12.9	11.2	11.6	7.9	3.0	2.3	0.7	1.3	-0.3	2.0	5.9	2.5	15.1	14.2	1.2	1.5	-8.0	-6.2
Equipo Económico (Ee)	12.4	10.2	11.1	9.3	3.1	3.9	1.0	1.6	0.8	1.5	4.0	3.1	15.4	14.8	1.0	1.4	-8.4	-7.2
Funcas	12.1	10.8	11.4	9.1	2.9	2.5	0.7	1.5	-0.2	0.3	4.9	2.0	15.3	14.8	0.5	1.7	-7.9	-6.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	12.0	11.2	11.1	9.1	3.1	3.7	0.7	1.3	--	--	5.1	4.5	15.3	14.5	0.9	1.0	-7.5	-4.5
Instituto de Estudios Económicos (IEE)	12.7	10.5	11.4	6.9	2.9	2.2	0.6	1.2	-0.4	1.9	5.8	2.3	15.2	14.4	1.0	1.3	-8.6	-6.2
Intermoney	13.9	14.0	12.9	12.9	2.9	2.5	0.7	1.7	--	--	5.0	3.0	15.3	14.5	0.9	1.4	-8.2	-5.9
Mapfre Economics	9.8	8.3	11.5	6.9	2.8	2.4	1.0	1.5	--	--	--	--	14.9	14.7	1.0	1.3	-7.6	-5.9
Oxford Economics	11.1	7.3	11.1	6.8	3.0	2.2	0.5	1.5	--	--	--	--	15.0	14.6	1.0	1.5	-7.6	-5.9
Repsol	14.4	11.0	13.1	6.4	2.9	2.3	0.7	1.3	-0.3	1.3	7.3	4.5	14.7	13.8	1.2	1.3	-7.9	-5.5
Santander	11.9	10.3	11.1	6.2	3.1	3.3	0.7	1.9	2.0	2.0	--	--	15.0	14.3	--	--	--	--
Metyis	12.6	12.1	11.8	13.1	3.0	1.9	0.8	1.2	--	--	4.5	3.5	15.2	14.7	1.0	1.2	-7.5	-6.0
Universidad Loyola Andalucía	13.5	13.3	13.6	12.2	2.8	2.4	0.9	1.5	--	--	5.2	3.5	15.1	14.0	0.9	0.7	-7.8	-5.6
CONSENSUS (AVERAGE)	12.3	11.5	11.9	9.7	2.9	2.4	0.8	1.4	0.2	1.8	5.3	3.4	15.2	14.4	1.0	1.2	-7.9	-5.7
Maximum	14.4	14.5	14.4	17.4	3.1	3.9	1.4	1.9	2.0	3.6	7.3	5.0	15.7	14.9	1.5	1.7	-7.0	-3.3
Minimum	9.8	7.3	10.7	6.2	2.4	1.7	0.5	1.1	-0.5	0.3	3.9	2.0	14.7	13.8	0.5	-0.2	-8.7	-7.2
Change on 2 months earlier[1]	1.2	-1.0	0.5	-0.6	0.5	0.8	0.1	0.2	-0.5	0.3	0.5	0.0	-0.4	-0.3	0.1	0.0	0.2	0.0
- Rise[2]	13	6	14	9	18	18	8	13	2	4	7	4	1	2	8	9	7	7
- Drop[2]	7	14	5	11	0	0	4	0	4	1	6	8	15	14	1	4	3	4
Change on 6 months earlier[1]	0.6	0.6	0.7	0.3	1.3	1.1	0.1	0.4	-0.5	0.4	1.4	0.0	-1.0	-0.9	0.0	-0.1	0.6	0.3
Memorandum items:																		
Government (July 2021)	10.0	10.3	10.3	10.0	--	--	--	--	--	--	4.0	2.7	15.2	14.1	--	--	-8.4	-5.0
Bank of Spain (September 2021)	8.7	11.1	11.5	7.5	2.1[7]	1.7[7]	0.3[8]	1.0[8]	--	--	8.1[9]	5.6[9]	15.1	14.3	--	--	-7.6	-4.3
EC (November 2021)	12.1	10.4	11.9	9.2	2.8[7]	2.1[7]	--	--	-0.3	2.1	4.5	2.8	15.2	14.3	0.3	0.8	-8.1	-5.2
IMF (October 2021)	11.9	12.0	12.0	8.8	2.2	1.6	--	--	--	--	19.6	19.8	15.4	14.8	0.4	1.4	-8.6	-5.0
OECD (September 2021)	--	--	--	--	2.4	1.9	0.4	1.3	--	--	--	--	--	--	--	--	--	--

[1] *Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).*

[2] *Number of panellists revising their forecast upwards (or downwards) since two months earlier.*

[3] *Average earnings per full-time equivalent job.*

[4] *In National Accounts terms: Full-time equivalent jobs.*

[5] *Current account balance, according to Bank of Spain estimates.*

[6] *Excluding financial entities bail-out expenditures.*

[7] *Harmonized Index of Consumer Prices (HICP).*

[8] *Harmonized Index excluding energy and food.*

[9] *Hours worked.*

Table 2

Quarterly Forecasts – November 2021

	21-I Q	21-II Q	21-III Q	21-IV Q	22-I Q	22-II Q	22-III Q	22-IV Q
GDP[1]	-0.6	1.1	2.0	2.1	1.0	1.0	1.0	1.0
Euribor 1 yr [2]	-0.49	-0.48	-0.49	-0.47	-0.42	-0.40	-0.36	-0.34
Government bond yield 10 yr [2]	0.31	0.43	0.33	0.47	0.57	0.65	0.72	0.79
ECB main refinancing operations interest rate [2]	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.01
ECB deposit rates [2]	-0.50	-0.50	-0.50	-0.50	-0.47	-0.47	-0.45	-0.45
Dollar / Euro exchange rate [2]	1.19	1.21	1.18	1.17	1.18	1.18	1.19	1.19

Forecasts in yellow.
[1] Qr-on-qr growth rates.
[2] End of period.

Table 3

CPI Forecasts – November 2021

Year-on-year change (%)					
Oct-21	Nov-21	Dec-21	Jan-22	Dec-21	Dec-22
5.5	5.4	5.2	4.3	5.2	1.1

Table 4

Opinions – November 2021

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	7	9	4	10	6	4
International context: Non-EU	3	7	10	9	7	4
	Is being			**Should be**		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	0	0	20	0	4	16
Monetary policy assessment[1]	0	0	20	1	2	17

[1] In relation to the current state of the Spanish economy.

Key Facts

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Economic Indicators

Table 1

National accounts: GDP and main expenditure components SWDA*

Forecasts in yellow

		GDP	Private consumption	Public consumption	Gross fixed capital formation			Exports	Imports	Domestic demand (a)	Net exports (a)
					Total	Construction	Equipment & others products				
Chain-linked volumes, annual percentage changes											
2014		1.4	1.7	-0.7	4.1	3.0	5.2	4.5	6.8	1.9	-0.5
2015		3.8	2.9	2.0	4.9	1.5	8.2	4.3	5.1	3.9	-0.1
2016		3.0	2.7	1.0	2.4	1.6	3.1	5.4	2.6	2.0	1.0
2017		3.0	3.0	1.0	6.8	6.7	6.9	5.5	6.8	3.1	-0.2
2018		2.3	1.7	2.3	6.3	9.5	3.4	1.7	3.9	2.9	-0.6
2019		2.1	1.0	2.0	4.5	7.1	1.9	2.5	1.2	1.6	0.5
2020		-10.8	-12.0	3.3	-9.5	-9.6	-9.5	-20.1	-15.2	-8.6	-2.2
2021		5.1	5.0	3.7	4.7	0.5	9.4	12.1	11.4	4.8	0.4
2022		6.0	5.5	2.6	8.6	9.3	7.8	10.8	9.1	5.4	0.6
2020	I	-4.3	-5.0	2.2	-2.9	-1.4	-4.5	-7.1	-5.1	-3.5	-0.8
	II	-21.5	-24.1	2.7	-22.2	-20.3	-24.4	-38.3	-31.6	-18.5	-3.0
	III	-8.7	-8.9	3.6	-7.3	-7.8	-6.8	-19.7	-14.5	-6.5	-2.1
	IV	-8.8	-10.0	4.7	-5.7	-8.8	-2.4	-15.3	-9.5	-6.6	-2.2
2021	I	-4.2	-6.0	3.8	-2.7	-9.6	5.1	-7.3	-3.9	-3.0	-1.2
	II	17.5	22.9	3.9	18.8	9.2	29.9	38.9	38.4	17.1	0.4
	III	2.7	1.1	2.9	-0.2	-6.2	6.3	13.7	10.2	1.5	1.2
Chain-linked volumes, quarter-on-quarter percentage changes											
2020	I	-5.4	-6.2	1.2	-3.0	-2.2	-3.9	-8.3	-5.5	-17.0	11.6
	II	-17.7	-20.0	0.8	-19.9	-18.4	-21.5	-32.7	-27.6	-60.9	43.3
	III	16.8	21.0	1.1	20.6	16.5	25.3	30.0	26.5	61.6	-44.8
	IV	0.2	-0.8	1.4	0.6	-1.8	3.2	5.6	4.5	-0.4	0.7
2021	I	-0.6	-2.1	0.4	0.1	-3.1	3.5	0.3	0.4	-2.5	1.9
	II	1.1	4.6	0.9	-2.2	-1.5	-3.0	0.9	4.2	8.1	-7.1
	III	2.0	-0.4	0.1	1.3	0.0	2.5	6.4	0.7	0.7	1.3
		Current prices (EUR billions)	Percentage of GDP at current prices								
2014		1,032	59.4	19.6	17.8	8.8	8.9	33.5	30.4	96.9	3.1
2015		1,078	58.5	19.5	18.0	8.7	9.3	33.6	30.6	97.0	3.0
2016		1,114	58.2	19.1	18.0	8.6	9.4	33.9	29.9	96.0	4.0
2017		1,162	58.4	18.6	18.7	9.0	9.7	35.1	31.5	96.4	3.6
2018		1,203	58.1	18.7	19.4	9.7	9.7	35.2	32.4	97.3	2.7
2019		1,244	57.3	18.8	20.1	10.4	9.7	35.0	32.0	97.1	2.9
2020		1,122	56.0	21.9	20.3	10.6	9.7	30.6	29.1	98.5	1.5
2021		1,195	56.7	21.8	20.2	10.1	10.1	33.1	32.4	99.3	0.7
2022		1,293	56.5	21.1	20.5	10.3	10.2	33.5	32.1	98.6	1.4

**Seasonally and Working Day Adjusted.*

(a) Contribution to GDP growth.

Source: INE and Funcas (Forecasts).

Chart 1.1 - GDP

Percentage change

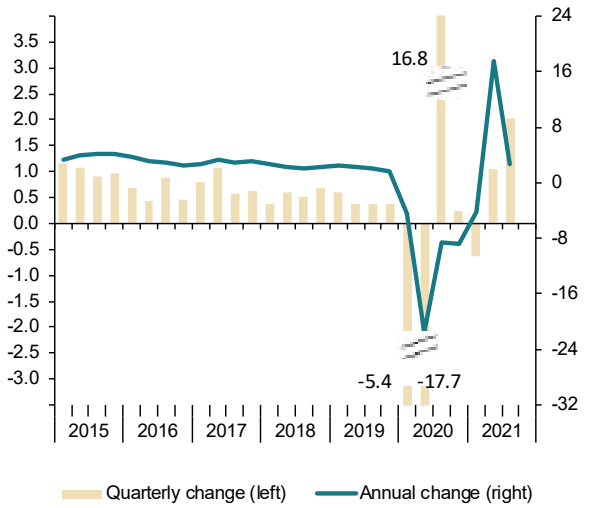


Chart 1.2 - Contribution to GDP annual growth

Percentage points

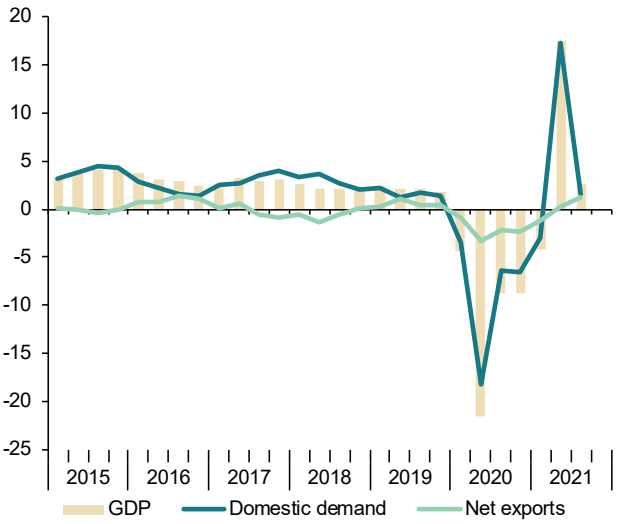


Chart 1.3 - Final consumption

Annual percentage change

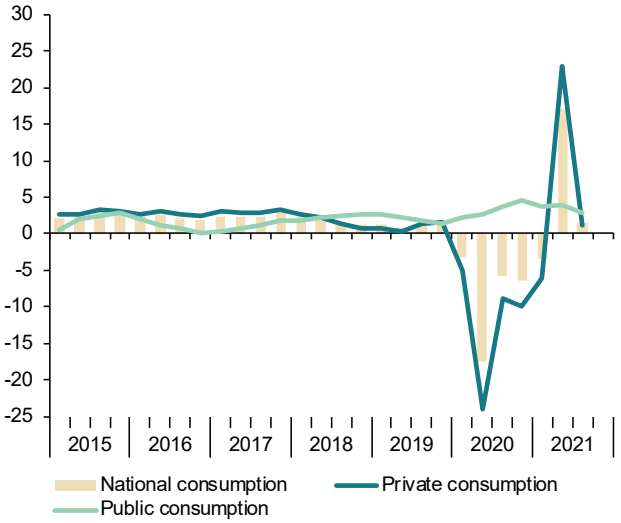


Chart 1.4 - Gross fixed capital formation

Annual percentage change

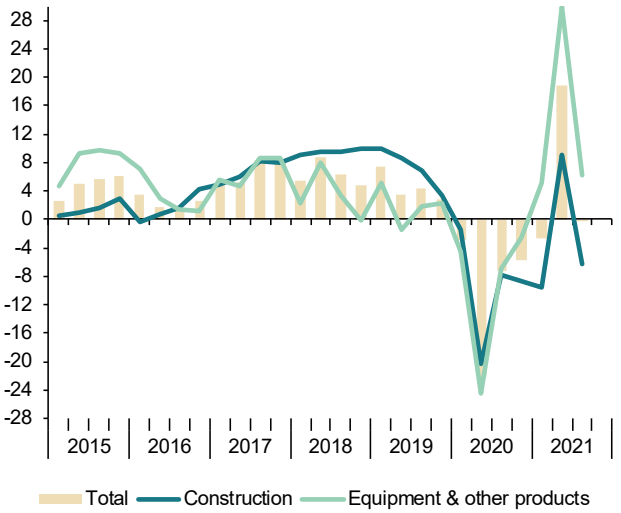


Table 2

National accounts: Gross value added by economic activity SWDA*

		Gross value added at basic prices								
				Industry			Services			
		Total	Agriculture, forestry and fishing	Total	Manufacturing	Construction	Total	Public administration, health, education	Other services	Taxes less subsidies on products
		Chain-linked volumes, annual percentage changes								
2015		3.3	4.7	3.0	4.6	5.4	3.1	1.1	3.8	9.6
2016		2.8	4.8	4.1	2.3	3.9	2.4	1.4	2.7	5.2
2017		3.1	-3.7	4.0	5.7	2.0	3.3	2.5	3.5	1.9
2018		2.3	7.5	0.0	-1.1	2.3	2.6	1.7	2.9	2.1
2019		2.2	-2.5	1.4	0.7	5.3	2.3	1.3	2.6	1.1
2020		-10.8	4.3	-10.1	-12.1	-11.3	-11.5	-0.1	-15.1	-11.0
2021 (a)		4.4	-6.4	6.9	8.2	-3.5	5.1	3.9	5.5	6.4
2019	IV	1.9	-5.5	1.4	1.2	3.3	2.2	0.9	2.6	-0.1
2020	I	-4.1	0.2	-5.6	-7.0	-2.9	-4.1	-1.1	-5.0	-6.3
	II	-21.7	6.7	-24.8	-29.2	-25.1	-21.8	-1.2	-28.4	-19.9
	III	-8.7	3.1	-5.8	-6.9	-7.4	-9.8	0.2	-13.0	-8.7
	IV	-8.8	7.3	-4.4	-5.3	-9.6	-10.3	1.8	-14.1	-8.9
2021	I	-4.5	-2.5	0.0	-0.6	-10.7	-5.0	3.6	-7.9	-1.2
	II	17.3	-6.7	23.7	29.2	11.7	17.6	4.9	23.3	20.8
	III	2.8	-10.0	0.4	1.2	-8.2	4.8	3.0	5.5	1.5
		Chain-linked volumes, quarter-on-quarter percentage changes								
2019	IV	0.5	-0.1	-0.6	-0.4	0.3	0.8	0.4	0.9	-0.9
2020	I	-5.4	1.7	-5.9	-7.1	-4.3	-5.6	-1.6	-6.9	-5.5
	II	-18.0	3.7	-19.9	-23.8	-22.1	-18.1	0.3	-24.3	-14.2
	III	17.1	-2.1	25.7	32.0	23.9	15.8	1.2	22.3	13.6
	IV	0.4	4.0	0.9	1.4	-2.2	0.3	1.9	-0.3	-1.1
2021	I	-0.9	-7.6	-1.5	-2.5	-5.5	-0.1	0.2	-0.2	2.4
	II	0.7	-0.8	-1.0	-1.0	-2.5	1.4	1.6	1.3	4.9
	III	2.7	-5.5	2.0	3.4	1.8	3.2	-0.6	4.7	-4.5
		Current prices EUR billions)	Percentage of value added at basic prices							
2014		940	2.8	16.4	12.4	5.7	75.2	18.7	56.5	9.8
2015		978	3.0	16.4	12.4	5.8	74.9	18.5	56.4	10.1
2016		1,011	3.1	16.2	12.4	5.9	74.8	18.4	56.5	10.2
2017		1,053	3.1	16.2	12.5	5.9	74.8	18.1	56.7	10.3
2018		1,089	3.0	16.0	12.2	5.9	75.0	18.1	56.9	10.5
2019		1,128	2.9	16.0	12.1	6.3	74.9	18.1	56.8	10.3
2020		1,024	3.4	16.1	12.1	6.2	74.2	20.5	53.7	9.6

(a) Period with available data over the same period previous year.

** Seasonally and Working Day Adjusted.*

Source: INE.

Chart 2.1 - GVA by sectors

Annual percentage change

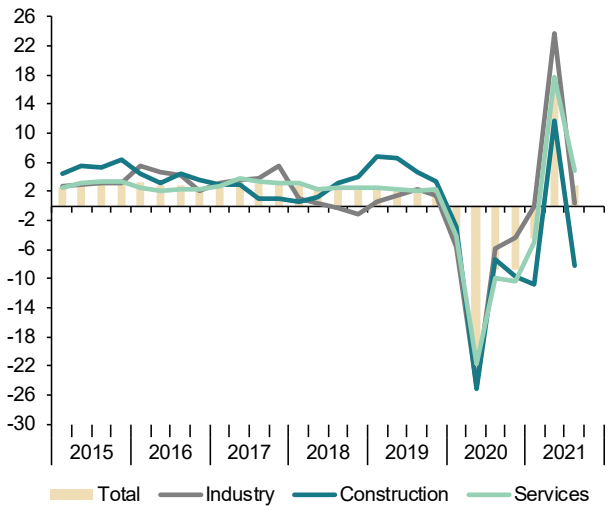


Chart 2.2 - GVA, Industry

Annual percentage change

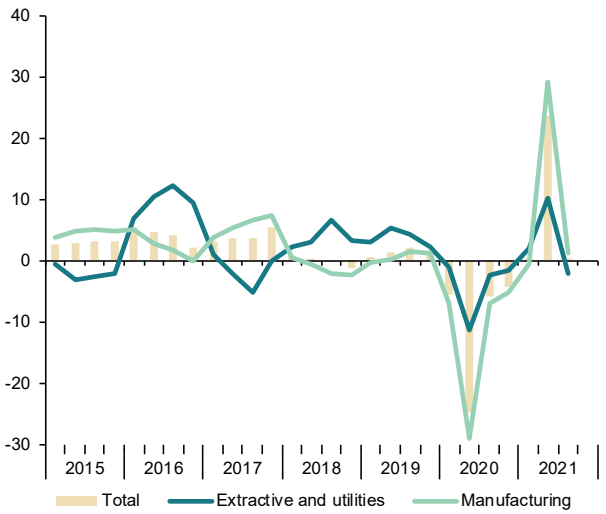


Chart 2.3 - GVA, services

Annual percentage change

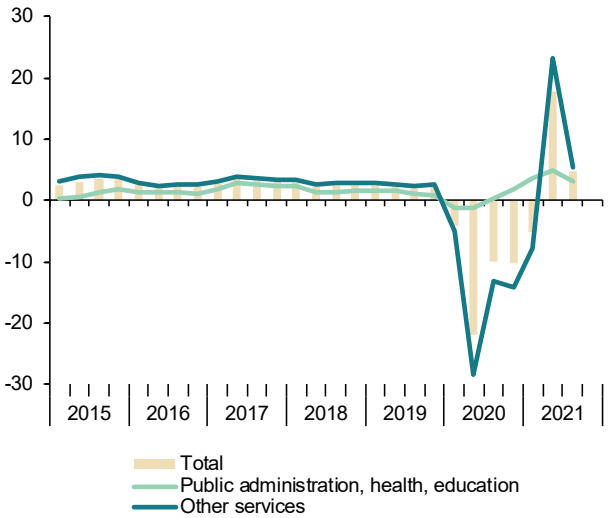


Chart 2.4 - GVA, structure by sectors

Percentage of value added at basic prices

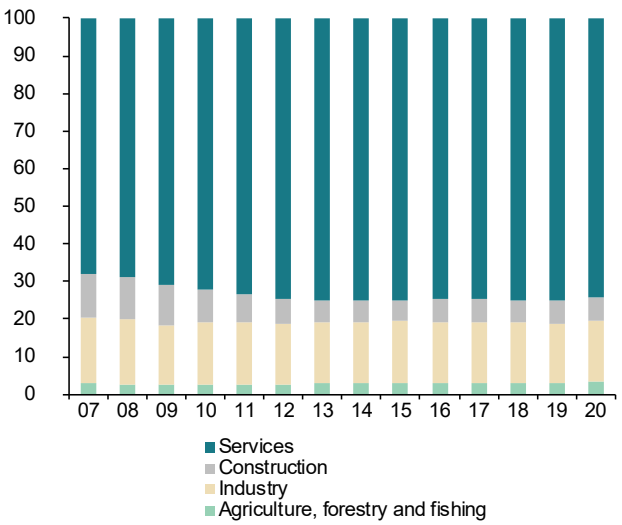


Table 3

National accounts: Productivity and labour costs

Forecasts in yellow

		Total economy						Manufacturing Industry					
		GDP, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)
		1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
		Indexes, 2015 = 100, SWDA											
2014		96.3	96.9	99.4	99.4	100.1	100.6	95.6	97.7	97.9	100.7	102.9	102.6
2015		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2016		103.0	102.8	100.2	99.4	99.2	98.8	102.3	103.5	98.9	100.1	101.2	100.4
2017		106.1	105.8	100.3	100.1	99.8	98.1	108.1	106.6	101.4	101.5	100.1	100.1
2018		108.5	108.1	100.4	101.9	101.5	98.6	106.9	108.7	98.3	102.7	104.5	102.4
2019		110.8	110.9	99.9	104.5	104.6	100.4	107.6	110.0	97.8	104.3	106.6	102.5
2020		98.8	102.5	96.4	105.8	109.8	104.2	94.6	101.5	93.2	101.8	109.2	101.6
2021		103.9	107.5	96.6	105.6	109.3	102.4	--	--	--	--	--	--
2022		110.1	109.7	100.4	105.9	105.5	96.8	--	--	--	--	--	--
2019	IV	111.4	111.7	99.7	105.0	105.3	100.3	107.5	109.6	98.1	104.6	106.7	100.5
2020	I	105.4	109.6	96.2	104.5	108.6	104.0	99.9	109.5	91.3	104.8	114.8	111.4
	II	86.8	90.0	96.5	107.9	111.8	106.4	76.1	92.3	82.4	100.4	121.8	111.1
	III	101.4	104.7	96.8	105.7	109.1	103.1	100.5	101.0	99.5	100.7	101.2	94.4
	IV	101.6	105.9	96.0	105.5	109.9	103.6	101.9	103.2	98.7	101.0	102.2	92.9
2021	I	101.0	107.0	94.4	106.1	112.4	106.3	99.3	102.4	96.9	104.2	107.5	99.7
	II	102.0	106.9	95.4	103.9	108.9	102.5	98.3	102.7	95.7	101.8	106.3	96.2
	III	104.1	111.1	93.6	105.3	112.4	104.6	101.6	102.9	98.8	103.5	104.8	94.6
		Annual percentage changes											
2014		1.4	1.0	0.4	0.3	-0.1	0.1	2.1	-1.9	4.0	0.7	-3.2	-3.3
2015		3.8	3.2	0.6	0.6	-0.1	-0.6	4.6	2.4	2.2	-0.7	-2.9	-2.6
2016		3.0	2.8	0.2	-0.6	-0.8	-1.1	2.3	3.5	-1.1	0.1	1.2	0.4
2017		3.0	2.9	0.1	0.7	0.6	-0.7	5.7	3.0	2.5	1.4	-1.1	-0.4
2018		2.3	2.2	0.1	1.8	1.7	0.5	-1.1	2.0	-3.1	1.1	4.4	2.3
2019		2.1	2.6	-0.5	2.5	3.1	1.8	0.7	1.1	-0.5	1.6	2.1	0.1
2020		-10.8	-7.6	-3.5	1.3	5.0	3.9	-12.1	-7.7	-4.7	-2.4	2.4	-0.9
2021		5.1	4.9	0.3	-0.2	-0.5	-1.8	--	--	--	--	--	--
2022		6.0	2.0	3.9	0.3	-3.5	-5.5	--	--	--	--	--	--
2019	IV	1.7	2.4	-0.6	2.1	2.7	1.4	1.2	0.9	0.2	0.8	0.6	-2.4
2020	I	-4.3	-0.6	-3.7	0.9	4.8	4.0	-7.0	-0.2	-6.8	0.7	8.1	7.3
	II	-21.5	-18.8	-3.4	3.3	6.9	5.8	-29.2	-16.1	-15.6	-3.8	14.0	7.8
	III	-8.7	-5.6	-3.2	0.7	4.1	2.5	-6.9	-8.6	1.9	-3.4	-5.1	-8.2
	IV	-8.8	-5.2	-3.8	0.4	4.4	3.3	-5.3	-5.9	0.7	-3.5	-4.2	-7.6
2021	I	-4.2	-2.4	-1.9	1.5	3.4	2.2	-0.6	-6.4	6.2	-0.5	-6.3	-10.4
	II	17.5	18.9	-1.1	-3.7	-2.6	-3.6	29.2	11.2	16.1	1.4	-12.7	-13.4
	III	2.7	6.2	-3.3	-0.4	3.0	1.5	1.2	1.9	-0.7	2.8	3.5	0.3

(a) Nominal ULC deflated by GDP/GVA deflator.

Source: INE and Funcas (Forecasts).

Chart 3.1 - Nominal ULC, total economy

Index, 2000=100

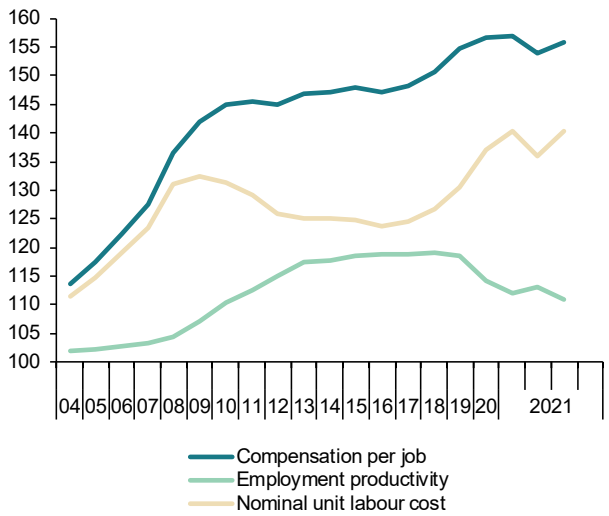
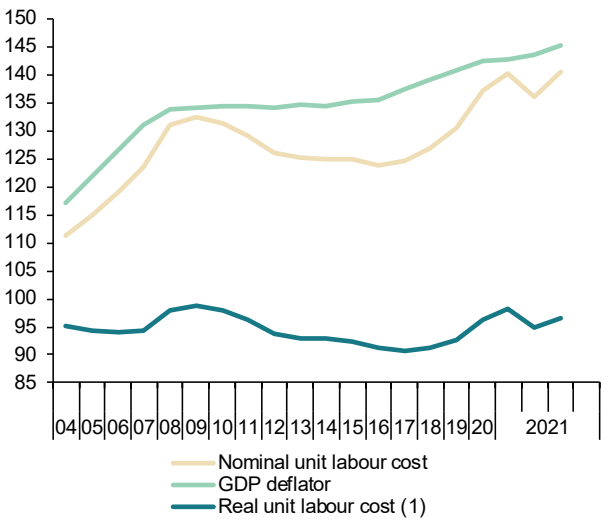


Chart 3.2 - Real ULC, total economy

Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

Chart 3.3 - Nominal ULC, manufacturing industry

Index, 2000=100

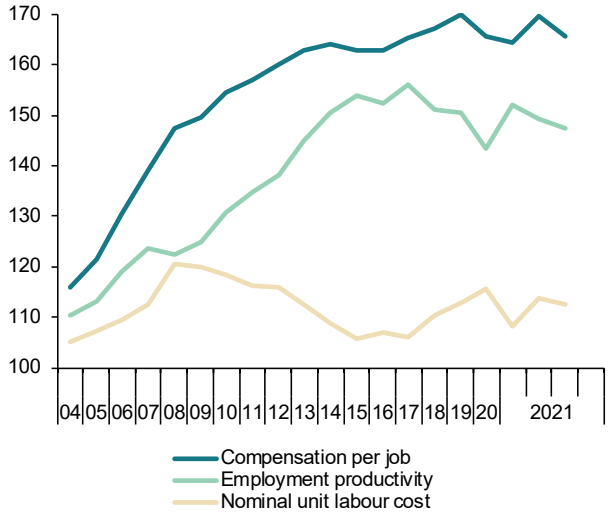
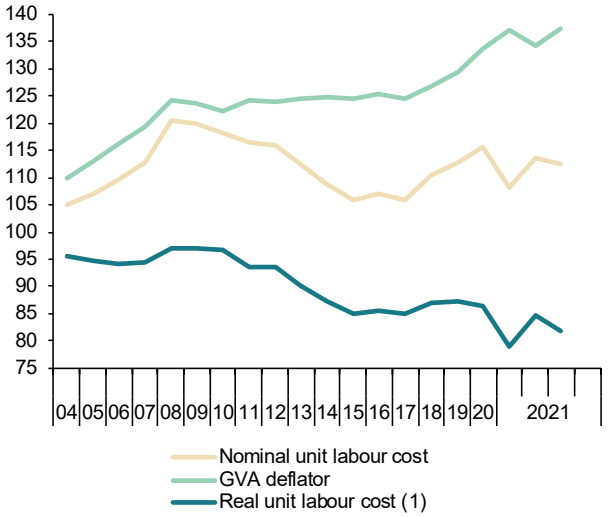


Chart 3.4 - Real ULC, manufacturing industry

Index, 2000=100



(1) Nominal ULC deflated by manufacturing GVA deflator.

Table 4

National accounts: National income, distribution and disposition

Forecasts in yellow

		Gross domestic product	Compen-sation of employees	Gross operating surplus	Gross national disposable income	Final national consum-ption	Gross national saving (a)	Gross capital formation	Compen-sation of employees	Gross operating surplus	Saving rate	Investment rate	Current account balance	Net lending or borrowing
		EUR Billions, 4-quarter cumulated transactions							Percentage of GDP					
2014		1,032.2	473.5	455.4	1,017.7	815.4	202.3	184.8	45.9	44.1	19.6	17.9	1.7	2.1
2015		1,077.6	492.9	472.6	1,066.7	840.1	226.5	204.7	45.7	43.9	21.0	19.0	2.0	2.7
2016		1,113.8	503.7	495.8	1,104.8	860.5	244.3	208.9	45.2	44.5	21.9	18.8	3.2	3.4
2017		1,161.9	523.7	518.4	1,152.2	894.4	257.7	225.5	45.1	44.6	22.2	19.4	2.8	3.0
2018		1,203.3	545.7	531.4	1,193.2	924.2	269.0	246.4	45.4	44.2	22.4	20.5	1.9	2.4
2019		1,244.4	575.9	540.9	1,234.1	948.0	286.1	259.9	46.3	43.5	23.0	20.9	2.1	2.4
2020		1,121.9	543.9	476.4	1,114.7	873.3	241.4	232.1	48.5	42.5	21.5	20.7	0.8	1.2
2021		1,194.8	565.5	510.7	1,193.3	938.0	255.3	248.0	47.3	42.7	21.4	20.8	0.6	1.2
2022		1,292.5	576.8	587.3	1,293.3	1,002.8	290.5	271.4	44.6	45.4	22.5	21.0	1.5	3.1
2019	IV	1,244.4	575.9	540.9	1,234.1	948.0	286.1	259.9	46.3	43.5	23.0	20.9	2.1	2.4
2020	I	1,233.3	578.1	530.0	1,225.3	943.3	282.0	258.1	46.9	43.0	22.9	20.9	1.9	2.5
	II	1,169.2	558.1	501.5	1,162.1	902.2	260.0	243.0	47.7	42.9	22.2	20.8	1.4	1.9
	III	1,146.7	550.9	491.9	1,139.5	888.6	250.9	238.0	48.0	42.9	21.9	20.8	1.1	1.4
	IV	1,121.9	543.9	476.4	1,114.7	873.3	241.4	232.1	48.5	42.5	21.5	20.7	0.8	1.2
2021	I	1,112.9	541.4	471.5	1,104.5	866.6	237.9	231.9	48.6	42.4	21.4	20.8	0.5	1.1
	II	1,159.1	556.5	488.9	1,152.6	903.0	249.7	243.6	48.0	42.2	21.5	21.0	0.5	1.3
	III	1,171.3	564.9	487.3	--	911.0	--	247.9	48.2	41.6	--	21.2	--	--
		Annual percentage changes							Difference from one year ago					
2014		1.2	1.3	0.1	1.7	1.3	3.0	5.2	0.1	-0.5	0.3	0.7	-0.3	-0.5
2015		4.4	4.1	3.8	4.8	3.0	12.0	10.8	-0.1	-0.3	1.4	1.1	0.3	0.5
2016		3.4	2.2	4.9	3.6	2.4	7.8	2.0	-0.5	0.7	0.9	-0.2	1.1	0.7
2017		4.3	4.0	4.6	4.3	3.9	5.5	8.0	-0.2	0.1	0.3	0.7	-0.4	-0.4
2018		3.6	4.2	2.5	3.6	3.3	4.4	9.3	0.3	-0.5	0.2	1.1	-0.9	-0.7
2019		3.4	5.5	1.8	3.4	2.6	6.4	5.5	0.9	-0.7	0.6	0.4	0.2	0.1
2020		-9.8	-5.6	-11.9	-9.7	-7.9	-15.6	-10.7	2.2	-1.0	-1.5	-0.2	-1.3	-1.2
2021		6.5	4.0	7.2	7.1	7.4	5.8	6.8	-1.2	0.2	-0.1	0.1	-0.2	0.0
2022		8.2	2.0	15.0	8.4	6.9	13.8	9.4	-2.7	2.7	1.1	0.2	0.9	1.9
2019	IV	3.4	5.5	1.8	3.4	2.6	6.4	5.5	0.9	-0.7	0.6	0.4	0.2	0.1
2020	I	1.5	4.4	-0.7	1.7	1.4	2.7	2.0	1.3	-1.0	0.3	0.1	0.2	0.3
	II	-4.6	-0.7	-6.5	-4.4	-3.6	-7.0	-5.0	1.9	-0.9	-0.6	-0.1	-0.5	-0.5
	III	-7.2	-3.2	-8.6	-7.0	-5.6	-11.4	-8.1	2.0	-0.7	-1.0	-0.2	-0.8	-1.0
	IV	-9.8	-5.6	-11.9	-9.7	-7.9	-15.6	-10.7	2.2	-1.0	-1.5	-0.2	-1.3	-1.2
2021	I	-9.8	-6.4	-11.0	-9.9	-8.1	-15.7	-10.1	1.8	-0.6	-1.5	-0.1	-1.4	-1.4
	II	-0.9	-0.3	-2.5	-0.8	0.1	-4.0	0.2	0.3	-0.7	-0.7	0.2	-0.9	-0.6
	III	2.2	2.5	-0.9	--	2.5	--	4.1	0.2	-1.3	--	0.4	--	--

(a) Including change in net equity in pension funds reserves.

Source: INE and Funcas (Forecasts).

Chart 4.1 - National income, consumption and saving

EUR Billions, 4-quarter cumulated

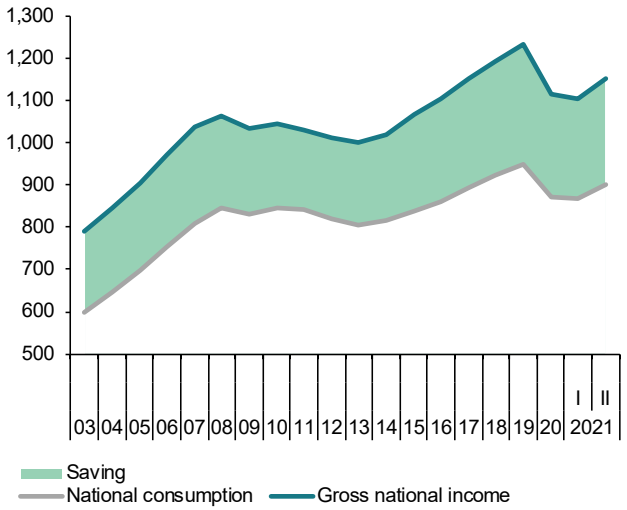


Chart 4.2 - National income, consumption and saving rate

Annual percentage change and percentage of GDP, 4-quarter moving averages

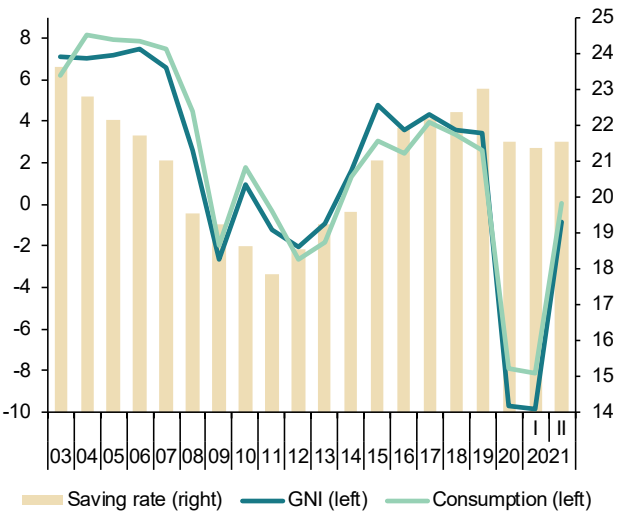


Chart 4.3 - Components of National Income

Percentage of GDP, 4-quarter moving averages

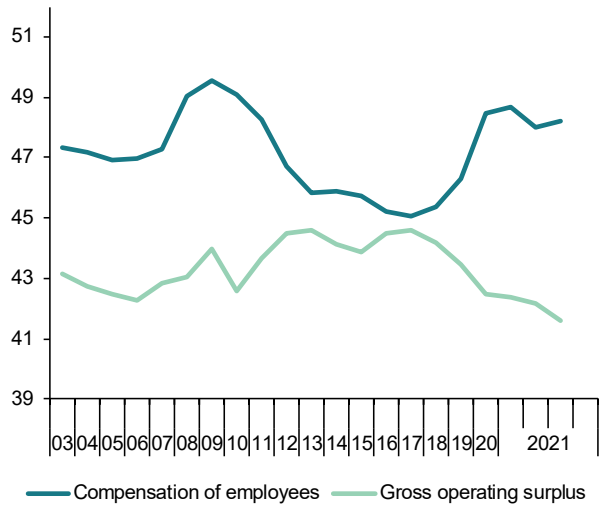


Chart 4.4 - Saving, Investment and Current Account Balance

Percentage of GDP, 4-quarter moving averages

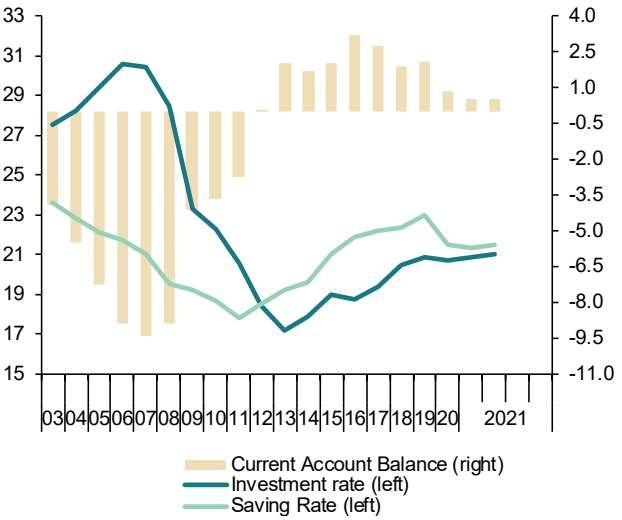


Table 5

National accounts: Household and non-financial corporations accounts

Forecasts in yellow

		Households							Non-financial corporations					
		Gross disposable income (GDI)	Final consumption expenditure	Gross saving	Gross capital formation	Saving rate	Gross capital formation	Net lending or borrowing	Gross operating surplus	Gross saving	Gross capital formation	Saving rate	Gross capital formation	Net lending or borrowing
		EUR Billions, 4-quarter cumulated operations				Percentage of GDI	Percentage of GDP		EUR Billions, 4-quarter cumulated operations			Percentage of GDP		
2014		656.2	612.7	41.5	30.2	6.3	2.9	1.0	228.7	171.7	127.7	16.6	12.4	4.7
2015		682.2	630.2	49.0	30.5	7.2	2.8	1.7	241.0	185.1	140.4	17.2	13.0	4.4
2016		700.6	648.3	49.2	31.8	7.0	2.9	1.4	255.3	196.2	149.2	17.6	13.4	4.4
2017		722.9	678.1	41.8	36.8	5.8	3.2	0.2	267.0	200.8	160.6	17.3	13.8	3.6
2018		743.6	699.5	41.3	40.7	5.5	3.4	-0.1	271.2	200.4	177.2	16.7	14.7	2.1
2019		780.9	713.6	64.5	42.0	8.3	3.4	1.7	274.4	203.0	189.2	16.3	15.2	1.3
2020		742.5	628.0	110.7	41.2	14.9	3.7	6.1	224.6	180.7	154.7	16.1	13.8	2.8
2021		760.2	677.5	78.8	42.0	10.4	3.5	2.9	248.4	192.5	169.6	16.1	14.2	2.3
2022		792.1	730.4	57.8	46.1	7.3	3.6	0.8	297.5	227.0	185.8	17.6	14.4	4.4
2019	III	773.1	710.2	59.7	41.9	7.7	3.4	1.3	272.6	200.0	187.2	16.2	15.2	1.3
	IV	780.9	713.6	64.5	42.0	8.3	3.4	1.7	274.4	203.0	189.2	16.3	15.2	1.3
2020	I	782.1	703.8	75.4	42.6	9.6	3.4	2.5	263.8	193.8	183.8	15.7	14.9	0.9
	II	758.5	662.0	93.6	40.1	12.3	3.4	4.4	242.9	191.7	169.8	16.4	14.5	2.0
	III	753.8	648.4	102.0	41.4	13.5	3.6	5.2	234.9	184.1	162.1	16.1	14.1	2.1
	IV	742.5	628.0	110.7	41.2	14.9	3.7	6.1	224.6	180.7	154.7	16.1	13.8	2.8
2021	I	740.4	616.3	120.3	46.4	16.2	4.2	6.6	222.5	178.0	152.6	16.0	13.7	2.8
	II	750.1	648.4	97.5	53.4	13.0	4.6	3.7	235.8	184.4	156.4	15.9	13.5	2.9
		Annual percentage changes				Difference from one year ago			Annual percentage changes			Difference from one year ago		
2014		0.0	1.8	-19.8	-2.7	-1.6	-0.1	-1.0	0.0	2.5	11.3	0.2	1.1	-0.6
2015		4.0	2.9	18.1	1.1	0.9	-0.1	0.7	5.4	7.8	10.0	0.5	0.7	-0.3
2016		2.7	2.9	0.5	4.2	-0.2	0.0	-0.3	5.9	6.0	6.2	0.4	0.4	0.0
2017		3.2	4.6	-15.2	15.7	-1.3	0.3	-1.2	4.6	2.3	7.7	-0.3	0.4	-0.8
2018		2.9	3.2	-1.2	10.6	-0.2	0.2	-0.3	1.6	-0.2	10.3	-0.6	0.9	-1.5
2019		5.0	2.0	56.4	3.3	2.7	0.0	1.8	1.2	1.3	6.7	-0.3	0.5	-0.8
2020		-4.9	-12.0	71.6	-1.9	6.6	0.3	4.5	-18.2	-11.0	-18.2	-0.2	-1.4	1.4
2021		2.4	7.9	-28.8	1.9	-4.5	-0.2	-3.2	10.6	6.6	9.7	0.0	0.4	-0.4
2022		4.2	7.8	-26.7	9.7	-3.1	0.0	-2.2	19.8	17.9	9.5	1.4	0.2	2.1
2019	III	4.9	2.2	51.1	8.7	2.4	0.2	1.4	0.4	-1.8	7.3	-0.9	0.5	-1.3
	IV	5.0	2.0	56.4	3.3	2.7	0.0	1.8	1.2	1.3	6.7	-0.3	0.5	-0.8
2020	I	4.0	0.0	64.5	2.5	3.5	0.0	2.3	-2.8	-3.7	1.3	-0.8	0.0	-0.9
	II	-1.0	-6.3	62.6	-3.3	4.8	0.0	3.3	-10.9	-3.7	-8.7	0.1	-0.7	0.7
	III	-2.5	-8.7	71.0	-1.2	5.8	0.2	3.9	-13.8	-7.9	-13.4	-0.1	-1.0	0.8
	IV	-4.9	-12.0	71.6	-1.9	6.6	0.3	4.5	-18.2	-11.0	-18.2	-0.2	-1.4	1.4
2021	I	-5.3	-12.4	59.5	9.0	6.6	0.7	4.1	-15.7	-8.1	-17.0	0.3	-1.2	1.9
	II	-1.1	-2.0	4.2	33.4	0.7	1.2	-0.8	-2.9	-3.8	-7.9	-0.5	-1.0	0.9

Source: INE and Funcas (Forecasts).

Chart 5.1 - Households: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

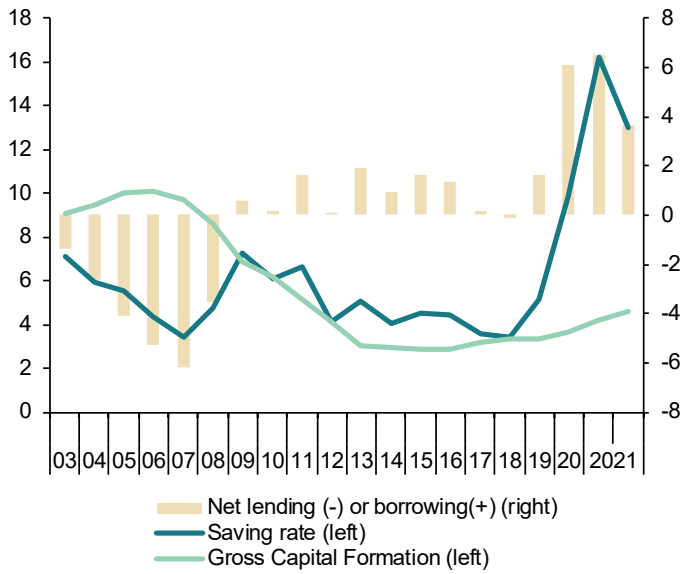


Chart 5.2 - Non-financial corporations: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

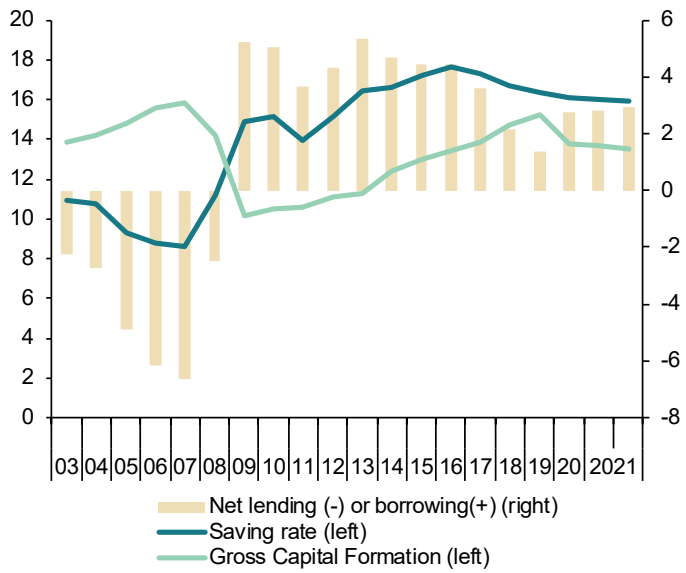


Table 6

National accounts: Public revenue, expenditure and deficit

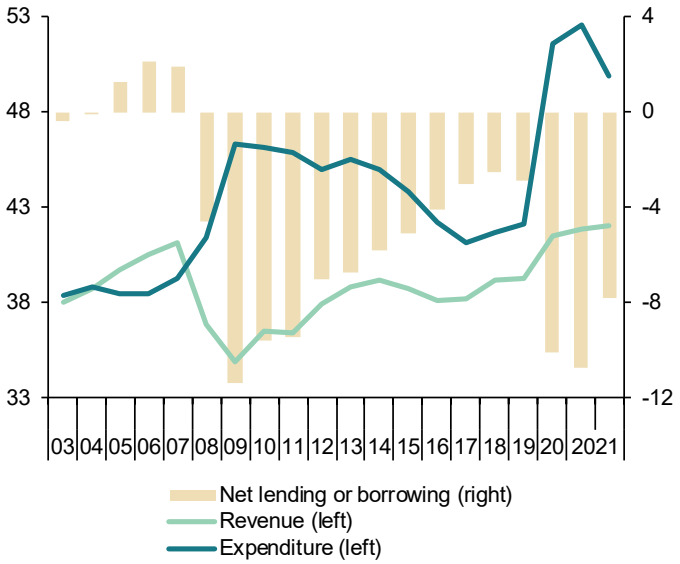
Forecasts in yellow

		Non financial revenue					Non financial expenditures							Net lending(+)/ net borrowing(-)	Net lending(+)/ net borrowing (-) excluding financial entities bail-out expenditures
		Taxes on production and imports	Taxes on income and wealth	Social contributions	Capital and other revenue	Total	Compensation of employees	Intermediate consumption	Interests	Social benefits and social transfers in kind	Gross capital formation and other capital expenditure	Other expenditure	Total		
		1	2	3	4	5=1+2+3+4	6	7	8	9	10	11	12=6+7+8+9+10+11	13=5-12	14
		EUR Billions, 4-quarter cumulated operations													
2014		118.5	104.4	129.0	52.7	404.6	115.0	56.3	35.5	198.5	32.4	28.0	465.7	-61.1	-59.7
2015		126.4	107.1	131.5	52.1	417.2	119.2	59.0	32.4	198.6	35.4	28.3	473.0	-55.8	-55.2
2016		128.9	110.0	135.6	50.3	424.8	121.5	58.7	30.7	203.0	30.4	28.4	472.7	-48.0	-45.6
2017		135.1	116.9	142.4	49.1	443.5	123.5	59.9	29.3	207.4	30.6	28.1	478.8	-35.3	-34.8
2018		141.2	127.3	149.5	53.8	471.7	127.6	62.1	29.3	216.6	36.4	29.8	501.8	-30.0	-30.0
2019		143.0	129.1	160.7	55.5	488.3	134.7	64.7	28.4	229.6	35.1	31.6	524.0	-35.8	-35.7
2020		126.5	125.3	162.2	51.3	465.4	140.5	66.5	25.2	262.2	52.4	41.5	588.3	-122.9	-113.0
2021		138.6	135.2	164.4	56.6	494.9	149.6	69.7	26.2	257.6	42.2	44.1	589.4	-94.5	-94.5
2022		148.7	139.5	165.7	79.4	533.2	152.8	74.3	26.3	264.9	54.8	37.1	610.2	-77.0	-77.0
2019	III	143.3	130.8	158.0	55.9	488.0	133.0	63.8	28.8	226.0	37.3	32.4	521.3	-33.3	-33.2
	IV	143.0	129.1	160.7	55.5	488.3	134.7	64.7	28.4	229.6	35.1	31.6	524.0	-35.8	-35.7
2020	I	141.9	130.6	161.6	56.2	490.2	135.9	64.6	27.9	234.2	37.4	32.1	532.0	-41.8	-41.8
	II	131.9	126.6	161.6	53.5	473.6	137.0	65.0	26.6	250.3	38.0	37.5	554.4	-80.8	-80.9
	III	128.4	126.7	161.5	52.3	468.8	138.4	65.4	26.0	255.9	38.5	38.8	563.0	-94.2	-94.2
	IV	126.5	125.3	162.2	51.3	465.4	140.5	66.5	25.2	262.2	52.4	41.5	588.3	-122.9	-113.0
2021	I	126.5	126.1	163.3	49.7	465.5	142.4	67.1	25.4	266.4	50.7	42.9	594.9	-129.4	-119.3
	II	136.5	132.3	164.9	54.3	487.9	144.8	68.1	25.5	259.1	51.2	39.7	588.4	-100.4	-90.5
		Percentage of GDP, 4-quarter cumulated operations													
2014		11.5	10.1	12.5	5.1	39.2	11.1	5.5	3.4	19.2	3.1	2.7	45.1	-5.9	-5.8
2015		11.7	9.9	12.2	4.8	38.7	11.1	5.5	3.0	18.4	3.3	2.6	43.9	-5.2	-5.1
2016		11.6	9.9	12.2	4.5	38.1	10.9	5.3	2.8	18.2	2.7	2.6	42.4	-4.3	-4.1
2017		11.6	10.1	12.3	4.2	38.2	10.6	5.2	2.5	17.9	2.6	2.4	41.2	-3.0	-3.0
2018		11.7	10.6	12.4	4.5	39.2	10.6	5.2	2.4	18.0	3.0	2.5	41.7	-2.5	-2.5
2019		11.5	10.4	12.9	4.5	39.2	10.8	5.2	2.3	18.5	2.8	2.5	42.1	-2.9	-2.9
2020		11.3	11.2	14.5	4.6	41.5	12.5	5.9	2.2	23.4	4.7	3.7	52.4	-11.0	-10.1
2021		11.6	11.3	13.8	4.7	41.4	12.5	5.8	2.2	21.6	3.5	3.7	49.3	-7.9	-7.9
2022		11.5	10.8	12.8	6.1	41.3	11.8	5.7	2.0	20.5	4.2	2.9	47.2	-6.0	-6.0
2019	III	11.6	10.6	12.8	4.5	39.5	10.8	5.2	2.3	18.3	3.0	2.6	42.2	-2.7	-2.7
	IV	11.5	10.4	12.9	4.5	39.2	10.8	5.2	2.3	18.5	2.8	2.5	42.1	-2.9	-2.9
2020	I	11.5	10.6	13.1	4.6	39.7	11.0	5.2	2.3	19.0	3.0	2.6	43.1	-3.4	-3.4
	II	11.3	10.8	13.8	4.6	40.5	11.7	5.6	2.3	21.4	3.2	3.2	47.4	-6.9	-6.9
	III	11.2	11.1	14.1	4.6	40.9	12.1	5.7	2.3	22.3	3.4	3.4	49.1	-8.2	-8.2
	IV	11.3	11.2	14.5	4.6	41.5	12.5	5.9	2.2	23.4	4.7	3.7	52.4	-11.0	-10.1
2021	I	11.4	11.3	14.7	4.5	41.9	12.8	6.0	2.3	24.0	4.6	3.9	53.5	-11.6	-10.7
	II	11.8	11.4	14.2	4.7	42.1	12.5	5.9	2.2	22.3	4.4	3.4	50.7	-8.7	-7.8

Source: IGAE and Funcas (Forecasts).

Chart 6.1 - Public sector: Revenue, expenditure and deficit (a)

Percentage of GDP, 4-quarter moving averages



(a) Excluding financial entities bail-out expenditures.

Chart 6.2 - Public sector: Main expenditures

Percentage of GDP, 4-quarter moving averages

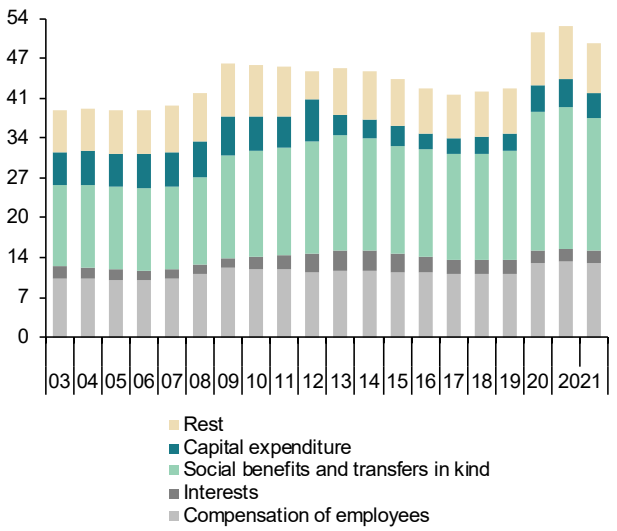


Table 7

Public sector balances, by level of Government

Forecasts in yellow

		Net lending (+)/ net borrowing (-) (a)					Debt				
		Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government	Central Government	Regional Governments	Local Governments	Social Security	Total Government (consolidated)
		EUR Billions, 4-quarter cumulated operations					EUR Billions, end of period				
2014		-35.9	-18.7	5.5	-10.6	-59.7	901.4	237.9	38.3	17.2	1,039.4
2015		-28.2	-18.9	4.6	-12.9	-55.2	939.3	263.3	35.1	17.2	1,070.1
2016		-25.7	-9.5	7.0	-17.4	-45.6	968.4	277.0	32.2	17.2	1,104.6
2017		-20.6	-4.2	6.7	-16.8	-34.8	1,011.5	288.1	29.0	27.4	1,145.1
2018		-15.7	-3.3	6.3	-17.3	-30.0	1,047.3	293.4	25.8	41.2	1,173.4
2019		-16.4	-7.3	3.8	-15.9	-35.7	1,061.2	295.1	23.2	55.0	1,188.8
2020		-84.2	-2.4	2.9	-29.3	-113.0	1,206.6	304.0	22.0	85.4	1,345.8
2021		--	--	--	--	-94.5	--	--	--	--	1,438.3
2022		--	--	--	--	-77.0	--	--	--	--	1,513.3
2019	III	-11.2	-8.7	4.4	-17.7	-33.2	1,070.3	298.1	25.2	52.4	1,203.8
	IV	-16.4	-7.3	3.8	-15.9	-35.7	1,061.2	295.1	23.2	55.0	1,188.8
2020	I	-15.0	-8.2	3.8	-22.3	-41.8	1,095.0	298.3	22.9	55.0	1,224.5
	II	-54.5	-6.6	2.5	-22.2	-80.9	1,159.2	305.7	25.0	68.9	1,291.0
	III	-64.7	-2.0	3.5	-30.9	-94.2	1,177.7	301.9	23.7	74.9	1,308.2
	IV	-84.2	-2.4	2.9	-29.3	-113.0	1,206.6	304.0	22.0	85.4	1,345.8
2021	I	-90.2	-3.4	3.5	-29.2	-119.3	1,247.8	307.7	22.1	85.4	1,393.1
	II	-70.9	-0.9	4.4	-23.1	-90.5	1,273.4	312.0	22.6	91.9	1,424.7
		Percentage of GDP, 4-quarter cumulated operations					Percentage of GDP				
2014		-3.5	-1.8	0.5	-1.0	-5.8	87.3	23.1	3.7	1.7	100.7
2015		-2.6	-1.8	0.4	-1.2	-5.1	87.2	24.4	3.3	1.6	99.3
2016		-2.3	-0.9	0.6	-1.6	-4.1	86.9	24.9	2.9	1.5	99.2
2017		-1.8	-0.4	0.6	-1.4	-3.0	87.1	24.8	2.5	2.4	98.6
2018		-1.3	-0.3	0.5	-1.4	-2.5	87.0	24.4	2.1	3.4	97.5
2019		-1.3	-0.6	0.3	-1.3	-2.9	85.3	23.7	1.9	4.4	95.5
2020		-7.5	-0.2	0.3	-2.6	-10.1	107.5	27.1	2.0	7.6	120.0
2021		--	--	--	--	-7.9	--	--	--	--	120.4
2022		--	--	--	--	-6.0	--	--	--	--	117.1
2019	III	-0.9	-0.7	0.4	-1.4	-2.7	86.7	24.1	2.0	4.2	97.5
	IV	-1.3	-0.6	0.3	-1.3	-2.9	85.3	23.7	1.9	4.4	95.5
2020	I	-1.2	-0.7	0.3	-1.8	-3.4	88.8	24.2	1.9	4.5	99.3
	II	-4.7	-0.6	0.2	-1.9	-6.9	99.1	26.1	2.1	5.9	110.4
	III	-5.6	-0.2	0.3	-2.7	-8.2	102.7	26.3	2.1	6.5	114.1
	IV	-7.5	-0.2	0.3	-2.6	-10.1	107.5	27.1	2.0	7.6	120.0
2021	I	-8.1	-0.3	0.3	-2.6	-10.7	112.1	27.6	2.0	7.7	125.2
	II	-6.1	-0.1	0.4	-2.0	-7.8	109.9	26.9	2.0	7.9	122.9

(a) Excluding financial entities bail-out expenditures.

Sources: National Statistics Institute, Bank of Spain (Financial Accounts of the Spanish Economy), and Funcas (Forecasts).

Chart 7.1 - Government deficit

Percent of GDP, 4-quarter cumulated operations

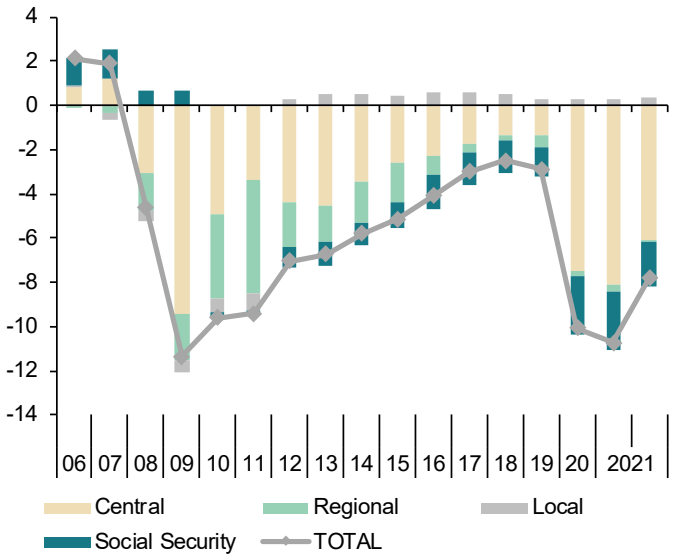


Chart 7.2 - Government debt

Percent of GDP

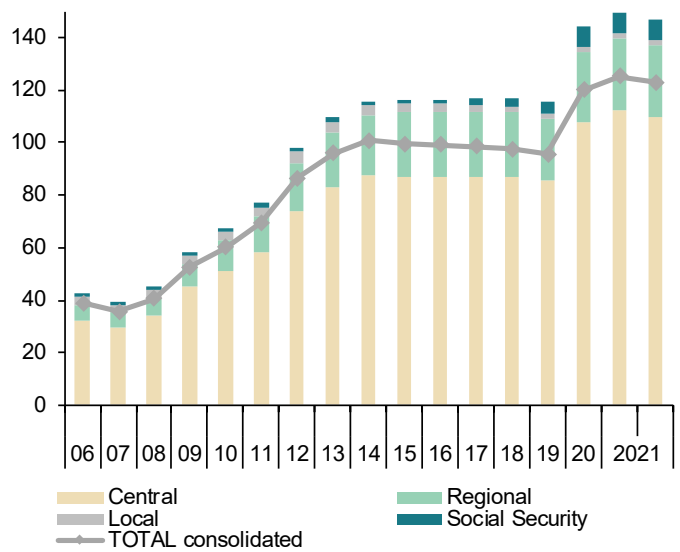


Table 8

General activity and industrial sector indicators (a)

		General activity indicators				Industrial sector indicators					
		Economic Sentiment Index	Composite PMI index	Social Security Affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security Affiliates in industry	Manufacturing PMI index	Industrial confidence index	Manufacturing Turnover index deflated	Industrial orders
		Index	Index	Thousands	1,000 GWH	2015=100	Thousands	Index	Balance of responses	2015=100	Balance of responses
2013		90.7	48.3	15,855.2	247.6	95.5	2,021.6	48.5	-14.0	93.2	-30.7
2014		100.9	55.1	16,111.1	247.2	96.8	2,022.8	53.2	-7.1	95.3	-16.3
2015		108.1	56.7	16,641.8	251.4	100.0	2,067.3	53.6	-0.3	100.0	-5.4
2016		105.9	54.9	17,157.5	252.1	101.8	2,124.7	53.1	-2.3	102.7	-5.4
2017		108.8	56.2	17,789.6	256.4	105.1	2,191.0	54.8	1.0	107.1	2.2
2018		108.4	54.6	18,364.5	257.9	105.3	2,250.9	53.3	-0.1	108.4	-0.2
2019		104.6	52.7	18,844.1	251.2	106.1	2,283.2	49.1	-3.9	108.9	-5.1
2020		90.2	41.5	18,440.5	239.1	95.8	2,239.3	47.5	-14.0	98.8	-29.8
2021	(b)	104.1	55.0	18,824.1	200.9	102.2	2,264.5	57.1	-0.3	102.5	-4.2
2020	I	101.8	43.3	18,904.2	61.6	99.1	2,284.4	48.2	-2.0	103.8	-7.8
	II	78.5	29.4	17,957.3	55.0	82.5	2,201.9	39.4	-27.8	82.3	-53.3
	III	90.3	48.5	18,321.9	59.9	100.5	2,227.3	51.4	-11.9	102.7	-38.8
	IV	90.1	44.8	18,592.5	61.6	102.0	2,244.1	51.1	-11.0	107.1	-19.6
2021	I	93.8	46.1	18,634.2	61.3	101.7	2,245.5	53.1	-7.3	104.1	-13.5
	II	107.2	58.9	18,666.3	61.2	104.0	2,258.5	59.2	2.5	102.7	-0.9
	III	108.7	59.6	19,018.8	60.3	102.6	2,280.7	58.8	2.1	103.3	-0.5
	IV (b)	111.9	56.2	19,206.9	20.2	--	2,288.8	57.4	5.4	--	3.1
2021	Aug	107.7	60.6	19,032.7	20.2	102.4	2,283.1	59.5	1.4	103.7	0.0
	Sep	109.4	57.0	19,117.8	20.2	102.7	2,285.8	58.1	2.7	--	1.2
	Oct	111.9	56.2	19,206.9	20.1	--	2,288.8	57.4	5.4	--	3.1
		Percentage changes (c)									
2013		--	--	-2.9	-2.2	-1.5	-4.4	--	--	-1.9	--
2014		--	--	1.6	-0.1	1.3	0.1	--	--	2.3	--
2015		--	--	3.3	1.7	3.4	2.2	--	--	4.9	--
2016		--	--	3.1	0.3	1.8	2.8	--	--	2.8	--
2017		--	--	3.7	1.7	3.2	3.1	--	--	4.3	--
2018		--	--	3.2	0.6	0.2	2.7	--	--	1.2	--
2019		--	--	2.6	-2.6	0.7	1.4	--	--	0.5	--
2020		--	--	-2.1	-4.8	-9.7	-1.9	--	--	-9.3	--
2021	(d)	--	--	2.3	2.7	9.5	1.2	--	--	9.2	--
2020	I	--	--	-0.3	-1.5	-5.0	-0.3	--	--	-4.4	--
	II	--	--	-5.0	-10.7	-16.8	-3.6	--	--	-20.7	--
	III	--	--	2.0	9.0	21.8	1.2	--	--	24.8	--
	IV	--	--	1.5	2.8	1.5	0.8	--	--	4.3	--
2021	I	--	--	0.2	-0.4	-0.3	0.1	--	--	-2.8	--
	II	--	--	0.2	-0.2	2.3	0.6	--	--	-1.3	--
	III	--	--	1.9	-1.5	-1.4	1.0	--	--	0.5	--
	IV (e)	--	--	1.0	0.3	--	0.4	--	--	--	--
2021	Aug	--	--	0.7	0.3	-0.2	0.4	--	--	0.7	--
	Sep	--	--	0.4	1.2	0.3	0.1	--	--	--	--
	Oct	--	--	0.5	-0.6	--	0.1	--	--	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Growth of the average of available months over the monthly average of the previous quarter. (f) Excluding domestic service workers and non-professional caregivers.

Sources: European Commision, Markit Economics Ltd., M. of Labour, M. of Industry, National Statistics Institute, REE and Funcas.

Chart 8.1 - General activity indicators (I)

Annual percentage changes

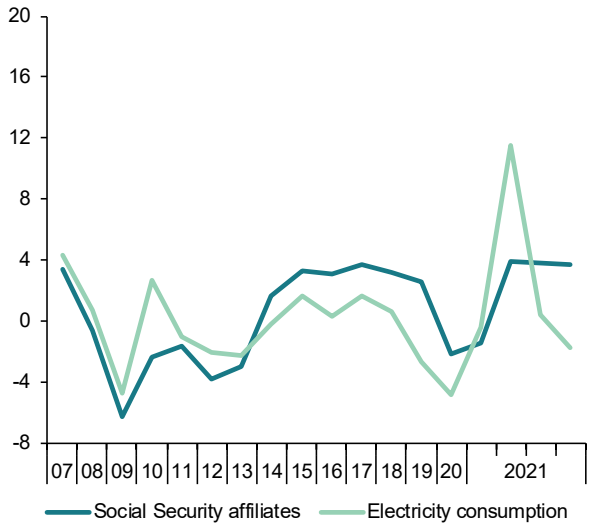


Chart 8.2 - General activity indicators (II)

Index

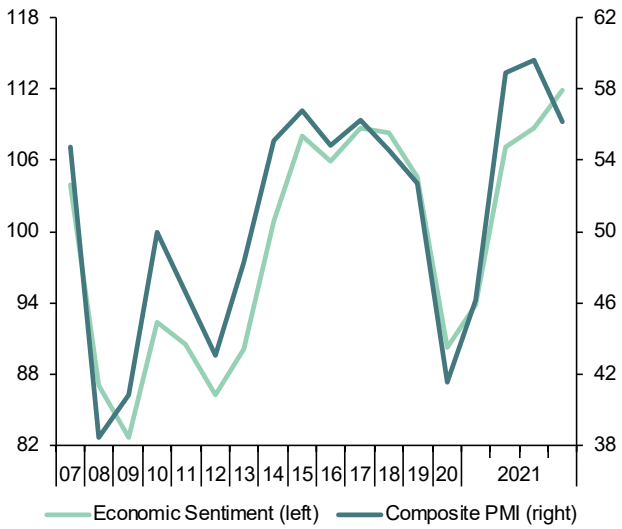


Chart 8.3 - Industrial sector indicators (I)

Annual percentage changes

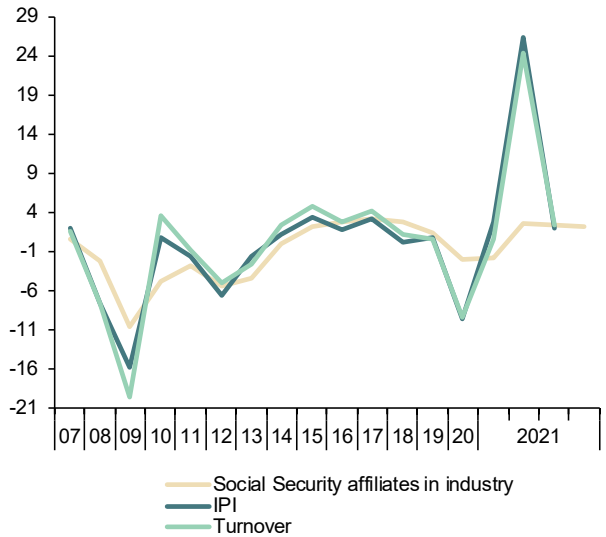


Chart 8.4 - Industrial sector indicators (II)

Index

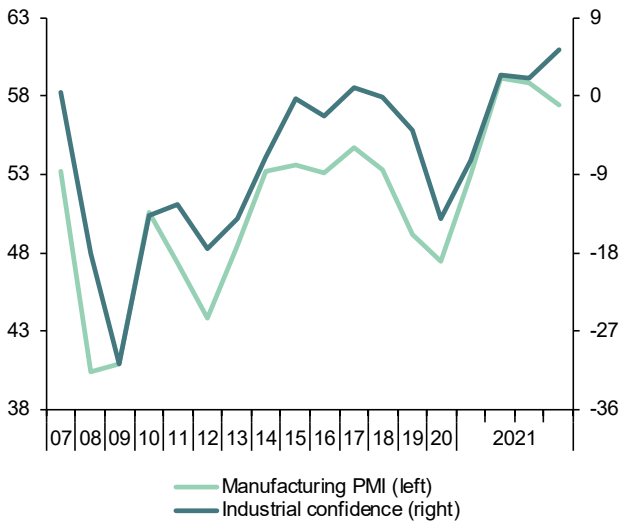


Table 9

Construction and services sector indicators (a)

	Construction indicators					Service sector indicators					
	Social Security Affiliates in construction	Industrial production index construction materials	Construction confidence index	Official tenders (f)	Housing permits (f)	Social Security Affiliates in services (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
	Thousands	2015=100)	Balance of responses	EUR Billions	Million m^2	Thousands	2015=100	Index	Million	Million	Balance of responses
2013	996.8	93.6	-55.6	9.2	6.8	11,727.9	92.9	48.3	286.0	186.5	-15.3
2014	980.3	92.8	-41.4	13.1	6.9	11,995.5	95.3	55.2	295.3	194.9	9.9
2015	1,026.7	100.0	-25.3	9.4	9.9	12,432.3	100.0	57.3	308.2	206.6	19.4
2016	1,053.9	102.6	-39.6	9.2	12.7	12,851.6	104.1	55.0	331.2	229.4	17.8
2017	1,118.8	111.5	-26.9	12.7	15.9	13,338.2	111.0	56.4	340.6	248.4	22.5
2018	1,194.1	114.2	-4.6	16.6	19.8	13,781.3	117.5	54.8	340.0	262.9	21.7
2019	1,254.9	124.8	-7.0	18.3	20.0	14,169.1	122.2	53.9	343.0	276.9	13.9
2020	1,233.1	110.6	-18.4	14.1	16.1	13,849.2	102.9	40.3	92.0	75.6	-26.2
2021 (b)	1,284.6	124.1	-2.2	16.9	12.4	14,158.5	113.4	54.5	120.2	93.3	3.7
2020 I	1,253.7	114.5	-8.6	3.3	4.7	14,250.7	114.8	42.5	70.9	56.0	7.8
II	1,166.6	92.0	-26.3	2.9	3.3	13,470.8	84.4	28.4	1.9	1.2	-47.1
III	1,250.3	118.2	-24.3	2.9	3.9	13,728.1	105.1	47.3	24.2	16.9	-35.9
IV	1,263.5	119.1	-14.4	4.9	4.2	13,958.9	108.5	43.0	14.7	12.7	-29.4
2021 I	1,261.4	121.1	-11.8	4.1	4.5	14,000.3	110.5	44.3	12.7	10.6	-25.5
II	1,281.0	125.7	2.2	6.4	5.0	14,008.1	115.8	58.8	22.8	16.4	10.2
III	1,300.4	124.8	1.2	6.4	3.0	14,327.0	119.4	59.6	57.8	39.4	18.8
IV (b)	1,306.0	--	2.7	--	--	14,499.6	--	56.6	--	16.0	26.1
2021 Aug	1,303.7	122.3	0.7	1.9	1.2	14,332.0	120.2	60.1	20.4	13.9	16.7
Sep	1,305.5	127.7	4.3	1.7	--	14,415.8	--	56.9	20.0	13.8	20.3
Oct	1,306.0	--	2.7	--	--	14,499.6	--	56.6	--	16.0	26.1
					Percentage changes (c)						
2013	-12.2	-7.5	--	23.2	-20.3	-1.5	-2.0	--	1.9	-3.5	--
2014	-1.7	-0.9	--	42.6	2.2	2.3	2.6	--	3.2	4.6	--
2015	4.7	7.8	--	-28.2	42.6	3.6	4.9	--	4.4	6.0	--
2016	2.6	2.6	--	-1.7	29.0	3.4	4.1	--	7.4	11.0	--
2017	6.2	8.7	--	37.1	24.8	3.8	6.6	--	2.8	8.3	--
2018	6.7	2.5	--	30.8	24.5	3.3	5.8	--	-0.2	5.8	--
2019	5.1	9.2	--	10.3	1.3	2.8	4.0	--	0.9	5.3	--
2020	-1.7	-11.3	--	-22.7	-19.8	-2.3	-15.8	--	-73.2	-72.7	--
2021 (d)	4.6	15.0	--	84.5	20.8	2.4	14.4	--	48.7	35.3	--
2020 I	-0.9	-8.4	--	-33.8	-10.5	-0.3	-6.6	--	-19.2	-19.7	--
II	-7.0	-19.6	--	-33.5	-39.4	-5.5	-26.5	--	-97.3	-97.8	--
III	7.2	28.5	--	-36.3	-18.9	1.9	24.5	--	1,186.4	1,295.7	--
IV	1.1	0.7	--	16.3	-7.8	1.7	3.2	--	-39.0	-24.9	--
2021 I	-0.2	1.7	--	23.4	-4.1	0.3	1.8	--	-14.0	-16.6	--
II	1.6	3.8	--	120.6	48.9	0.1	4.9	--	79.9	54.5	--
III	1.5	-0.7	--	118.4	29.5	2.3	3.1	--	153.4	140.6	--
IV (e)	0.4	--	--	--	--	1.2	--	--	--	22.1	--
2021 Aug	0.9	-1.7	--	113.4	19.4	0.7	1.2	--	17.3	18.4	--
Sep	0.1	4.4	--	88.9	--	0.6	--	--	-1.9	-0.5	--
Oct	0.0	--	--	--	--	0.6	--	--	--	16.2	--

(a) Seasonally adjusted, except for annual data and (f). (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Growth of the average of available months over the monthly average of the previous quarter. (f) Percent changes are over the same period of the previous year. (g) Excluding domestic service workers and non-professional caregivers.

Sources: European Commision, Markit Economics Ltd., M. of Labour, M. of Public Works, National Statistics Institute, AENA, OFICEMEN, SEOPAN and Funcas.

Chart 9.1 - Construction indicators (I)

Annual percentage changes and index

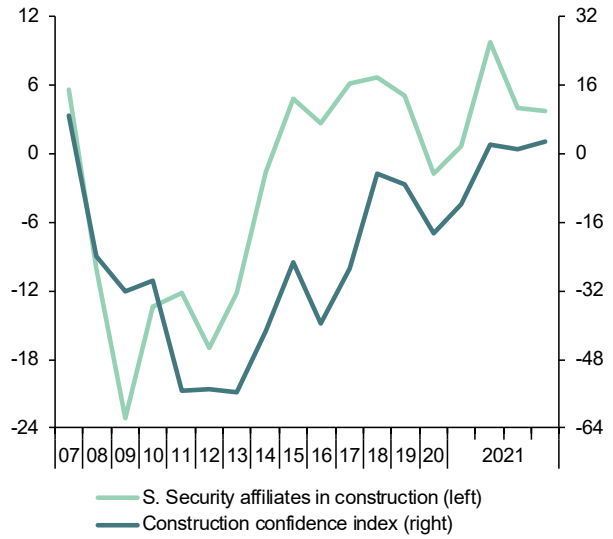


Chart 9.2 - Construction indicators (II)

Annual percentage changes

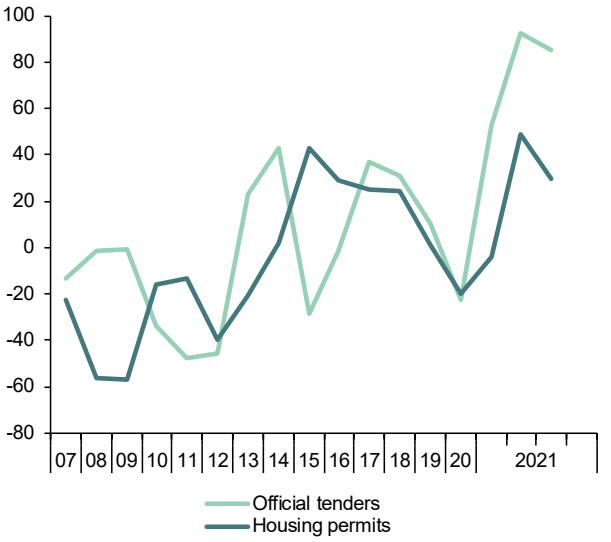


Chart 9.3 - Services indicators (I)

Annual percentage changes

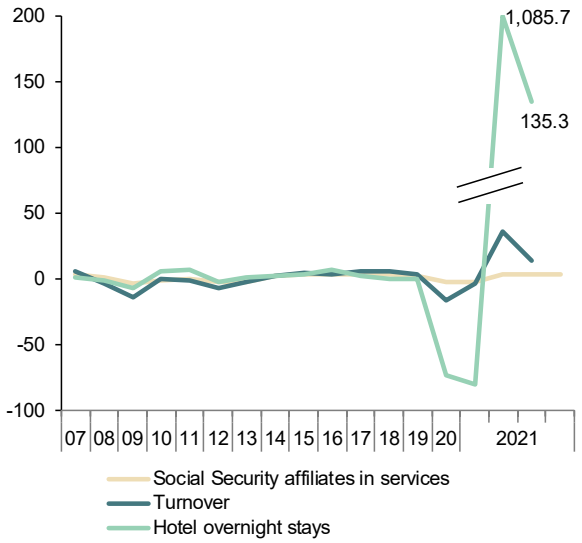


Chart 9.4 - Services indicators (II)

Index

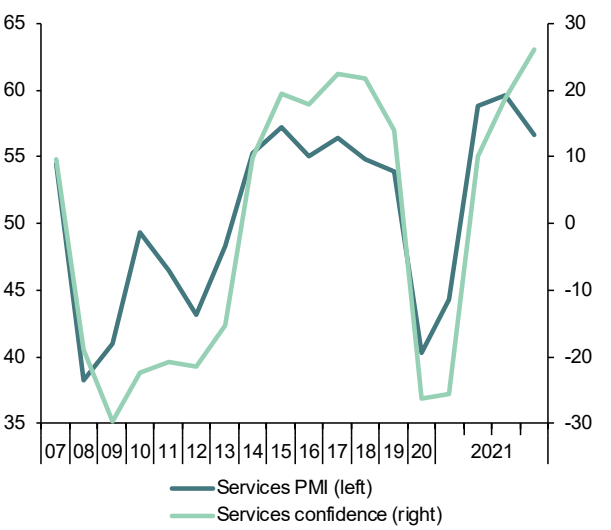


Table 10

Consumption and investment indicators (a)

		Consumption indicators					Investment in equipment indicators		
		Retail sales deflated	Car registrations	Consumer confidence index	Hotel overnight stays by residents in Spain	Industrial orders for consumer goods	Cargo vehicles registrations	Industrial orders for investment goods	Imports of capital goods (volume)
		2015=100	Thousands	Balance of responses	Million	Balance of responses	Thousands	Balance of responses	2005=100
2013		95.0	742.3	-28.1	100.6	-21.8	107.6	-33.5	68.9
2014		96.0	890.1	-14.5	104.7	-9.1	137.5	-16.5	81.6
2015		100.0	1,094.0	-4.7	110.3	-3.1	180.3	0.2	93.3
2016		103.9	1,230.1	-6.3	114.2	-1.4	191.3	-0.2	97.2
2017		104.7	1,341.6	-3.4	115.8	2.2	207.6	4.9	103.3
2018		105.4	1,424.0	-4.2	116.5	-5.6	230.0	12.4	105.4
2019		107.9	1,375.6	-6.3	119.6	-2.9	220.9	8.8	105.6
2020		100.4	939.1	-22.8	51.0	-25.4	170.8	-22.7	100.0
2021 (b)		101.6	780.8	-13.4	68.6	-13.9	157.7	1.5	104.7
2020	I	102.9	255.4	-10.3	24.5	-3.8	42.4	-11.4	94.5
	II	88.1	108.2	-27.9	1.6	-41.5	25.1	-41.0	94.4
	III	104.7	302.3	-26.9	17.0	-32.8	52.7	-28.9	101.4
	IV	105.2	302.6	-26.3	9.4	-23.3	52.5	-9.6	108.0
2021	I	101.7	199.5	-22.1	8.6	-18.1	50.4	-13.7	110.9
	II	104.2	250.0	-11.1	15.5	-15.4	49.3	11.4	110.6
	III	104.4	242.0	-9.1	30.7	-11.1	43.7	6.4	108.8
	IV (b)	--	81.8	-6.8	--	-5.9	14.4	2.0	--
2021	Aug	104.2	78.4	-8.5	10.7	-11.1	14.0	7.9	108.4
	Sep	104.5	85.1	-8.6	10.1	-10.6	15.2	18.0	--
	Oct	--	81.8	-6.8	--	-5.9	14.6	2.0	--
		Percentage changes (c)							
2013		-3.8	4.5	--	-1.4	--	-0.1	--	13.7
2014		1.1	19.9	--	4.1	--	27.8	--	18.4
2015		4.2	22.9	--	5.3	--	31.1	--	14.4
2016		3.9	12.4	--	3.6	--	6.1	--	4.1
2017		0.8	9.1	--	1.4	--	8.5	--	6.4
2018		0.7	6.1	--	0.6	--	10.8	--	2.0
2019		2.3	-3.4	--	2.7	--	-4.0	--	0.2
2020		-6.9	-31.7	--	-57.3	--	-22.6	--	-5.3
2021 (d)		4.7	5.7	--	57.6	--	16.3	--	16.6
2020	I	-5.0	-26.3	--	-17.8	--	-20.9	--	-19.8
	II	-14.4	-57.6	--	-93.5	--	-40.8	--	-0.2
	III	18.8	179.3	--	962.5	--	110.1	--	33.1
	IV	0.5	0.1	--	-44.4	--	-0.4	--	28.5
2021	I	-3.3	-34.1	--	-8.5	--	-4.0	--	11.2
	II	2.5	25.3	--	79.6	--	-2.3	--	-0.9
	III	0.1	-3.2	--	97.5	--	-11.4	--	-6.2
	IV (e)	--	1.3	--	--	--	0.1	--	--
2021	Aug	-0.1	-0.2	--	9.4	--	-3.6	--	-0.7
	Sep	0.3	8.6	--	-6.2	--	9.1	--	--
	Oct	--	-4.0	--	--	--	-4.3	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Growth of the average of available months over the monthly average of the previous quarter.

Sources: European Commision, M. of Economy, M. of Industry, National Statistics Institute, DGT, ANFAC and Funcas.

Chart 10.1 - Consumption indicators

Annual percentage changes and balance of responses

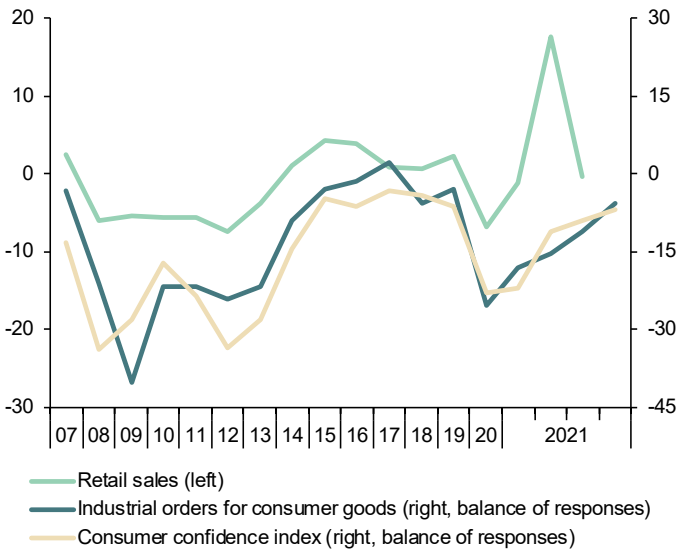


Chart 10.2 - Investment indicators

Annual percentage changes and balance of responses

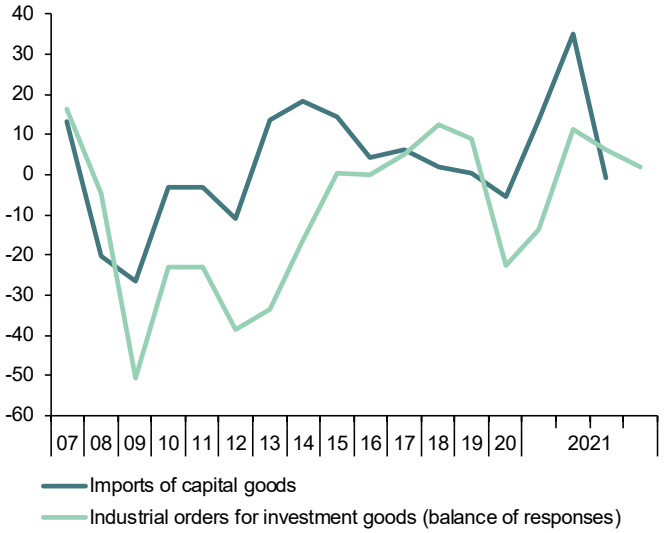


Table 11a

Labour market (I)

Forecasts in yellow

		Population aged 16 or more	Labour force		Employment		Unemployment		Participation rate aged 16 or more (a)	Employment rate aged 16 or more (b)	Unemployment rate (c)			
											Total	Aged 16-24	Spanish	Foreign
			Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted	Seasonally adjusted					
		1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
		Million							Percentage					
2014		38.5	23.0	--	17.3	--	5.6	--	59.6	45.0	24.4	53.2	23.0	34.5
2015		38.5	22.9	--	17.9	--	5.1	--	59.5	46.4	22.1	48.3	20.9	30.5
2016		38.5	22.8	--	18.3	--	4.5	--	59.2	47.6	19.6	44.4	18.7	26.6
2017		38.7	22.7	--	18.8	--	3.9	--	58.8	48.7	17.2	38.6	16.3	23.8
2018		38.9	22.8	--	19.3	--	3.5	--	58.6	49.7	15.3	34.4	14.3	21.9
2019		39.3	23.0	--	19.8	--	3.2	--	58.6	50.4	14.1	32.6	13.2	20.1
2020		39.6	22.7	--	19.2	--	3.5	--	57.4	48.5	15.5	38.3	14.1	24.6
2021		39.7	23.2	--	19.6	--	3.6	--	58.3	49.4	15.3	--	--	--
2022		40.1	23.3	--	19.9	--	3.4	--	58.3	49.7	14.8	--	--	--
2019	IV	39.3	23.2	23.1	20.0	19.9	3.2	3.2	58.7	50.6	13.8	30.5	12.8	20.0
2020	I	39.4	23.0	23.1	19.7	19.9	3.3	3.2	58.6	50.4	14.4	33.0	13.3	21.2
	II	39.5	22.0	21.9	18.6	18.6	3.4	3.4	55.5	46.9	15.3	39.6	13.9	24.9
	III	39.6	22.9	22.8	19.2	19.0	3.7	3.8	57.6	48.1	16.3	40.4	14.8	25.7
	IV	39.6	23.1	23.0	19.3	19.3	3.7	3.7	58.1	48.7	16.1	40.1	14.5	26.6
2021	I	39.6	22.9	23.0	19.2	19.4	3.7	3.6	58.1	49.0	16.0	39.5	14.4	26.2
	II	39.6	23.2	23.2	19.7	19.6	3.5	3.6	58.5	49.5	15.3	38.4	13.9	23.8
	III	39.6	23.4	23.4	20.0	19.9	3.4	3.5	58.9	50.2	14.6	31.2	13.5	21.7
		Percentage changes (d)							Difference from one year ago					
2014		-0.3	-1.0	--	1.2	--	-7.3	--	-0.4	0.7	-1.7	-2.3	-1.4	-2.5
2015		0.0	-0.1	--	3.0	--	-9.9	--	-0.1	1.4	-2.4	-4.9	-2.1	-4.0
2016		0.1	-0.4	--	2.7	--	-11.4	--	-0.3	1.2	-2.4	-3.9	-2.2	-3.8
2017		0.3	-0.4	--	2.6	--	-12.6	--	-0.4	1.1	-2.4	-5.9	-2.4	-2.8
2018		0.6	0.3	--	2.7	--	-11.2	--	-0.2	1.0	-2.0	-4.2	-2.0	-1.9
2019		1.0	1.0	--	2.3	--	-6.6	--	0.0	0.7	-1.2	-1.8	-1.1	-1.8
2020		0.8	-1.3	--	-2.9	--	8.7	--	-1.2	-1.9	1.4	5.7	0.9	4.5
2021		0.4	2.0	--	2.2	--	0.6	--	0.9	0.9	-0.2	--	--	--
2022		0.8	0.7	--	1.4	--	-3.0	--	-0.1	0.3	-0.6	--	--	--
2019	IV	1.1	1.3	0.5	2.1	0.9	-3.4	-2.3	0.1	0.5	-0.7	-3.0	-0.7	-0.8
2020	I	1.0	0.7	0.0	1.1	-0.1	-1.2	1.1	-0.1	0.0	-0.3	-2.0	-0.4	0.4
	II	1.0	-4.6	-5.2	-6.0	-6.8	4.3	4.6	-3.2	-3.5	1.3	6.5	0.8	4.7
	III	0.9	-0.8	4.0	-3.5	2.6	15.8	11.7	-0.9	-2.1	2.3	8.8	1.7	6.3
	IV	0.7	-0.4	0.9	-3.1	1.3	16.5	-1.5	-0.6	-1.9	2.3	9.6	1.6	6.6
2021	I	0.5	-0.6	0.0	-2.4	0.7	10.3	-3.7	-0.5	-1.3	1.6	6.5	1.1	5.0
I	I	0.3	5.6	0.7	5.7	1.0	5.2	-0.8	3.0	2.6	-0.1	-1.2	0.1	-1.2
	III	0.2	2.4	0.7	4.5	1.3	-8.2	-2.3	1.3	2.1	-1.7	-9.3	-1.3	-3.9

(a) Labour force aged 16 or more over population aged 16 or more. (b) Employed aged 16 or more over population aged 16 or more. (c) Unemployed in each group over labour force in that group. (d) Annual percentage changes for original data; quarterly percentage changes for S.A. data.

Source: INE (Labour Force Survey) and Funcas.

Chart 11a.1 - Labour force, employment and unemployment, SA

Annual growth rates and percentage of active population

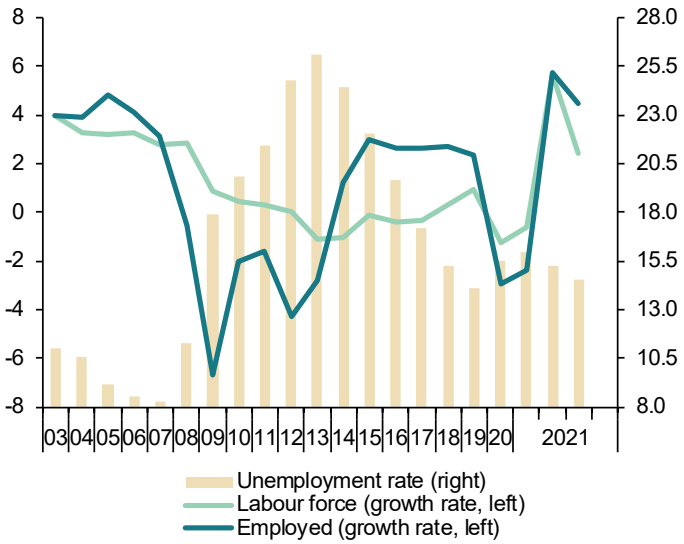


Chart 11a.2 - Unemployment rates, S.A.

Percentage

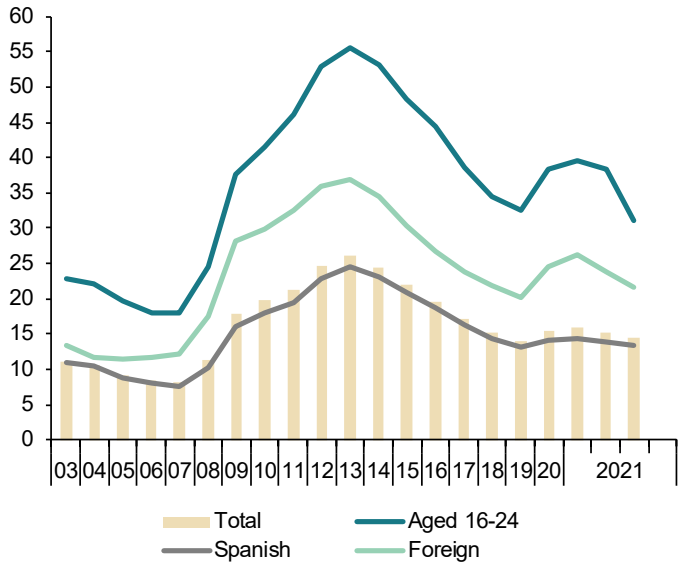


Table 11b

Labour market (II)

		Employed by sector				Employed by professional situation					Employed by duration of the working-day		
						Employees							
							By type of contract						
		Agriculture	Industry	Construction	Services	Total	Tempo-rary	Indefinite	Temporary employment rate (a)	Self employed	Full-time	Part-time	Part-time employment rate (b)
		1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
							Million (original data)						
2014		0.74	2.38	0.99	13.23	14.29	3.43	10.86	24.0	3.06	14.59	2.76	15.91
2015		0.74	2.48	1.07	13.57	14.77	3.71	11.06	25.1	3.09	15.05	2.81	15.74
2016		0.77	2.52	1.07	13.97	15.23	3.97	11.26	26.1	3.11	15.55	2.79	15.21
2017		0.82	2.65	1.13	14.23	15.72	4.19	11.52	26.7	3.11	16.01	2.82	14.97
2018		0.81	2.71	1.22	14.59	16.23	4.35	11.88	26.8	3.09	16.56	2.76	14.31
2019		0.80	2.76	1.28	14.94	16.67	4.38	12.29	26.3	3.11	16.95	2.83	14.30
2020		0.77	2.70	1.24	14.49	16.11	3.88	12.23	24.1	3.09	16.51	2.70	14.05
2021(c)		0.79	2.68	1.29	14.87	16.51	4.12	12.39	25.0	3.13	16.89	2.74	13.97
2019	IV	0.79	2.76	1.28	15.13	16.85	4.40	12.45	26.1	3.12	17.30	2.67	13.38
2020	I	0.78	2.77	1.28	14.85	16.56	4.14	12.42	25.0	3.12	16.83	2.85	14.47
	II	0.76	2.64	1.17	14.03	15.53	3.47	12.06	22.4	3.08	16.12	2.49	13.36
	III	0.73	2.69	1.25	14.51	16.11	3.89	12.21	24.2	3.07	16.52	2.65	13.84
	IV	0.78	2.69	1.28	14.59	16.24	4.00	12.24	24.6	3.10	16.55	2.80	14.47
2021	I	0.80	2.64	1.26	14.50	16.10	3.83	12.27	23.8	3.10	16.51	2.70	14.04
	II	0.81	2.67	1.32	14.87	16.51	4.14	12.37	25.1	3.16	16.84	2.84	14.41
	III	0.76	2.73	1.29	15.25	16.92	4.40	12.52	26.0	3.11	17.33	2.70	13.46
		Annual percentage changes							Difference from one year ago	Annual percentage changes			Difference from one year ago
2014		-0.1	1.0	-3.5	1.7	1.5	5.3	0.4	0.9	-0.4	1.1	1.9	0.1
2015		0.1	4.3	8.1	2.6	3.4	8.3	1.9	1.1	1.1	3.2	1.9	-0.2
2016		5.1	1.6	0.0	2.9	3.1	6.8	1.8	0.9	0.7	3.3	-0.8	-0.5
2017		5.8	5.0	5.1	1.9	3.2	5.6	2.3	0.6	-0.1	2.9	1.0	-0.2
2018		-0.8	2.3	8.3	2.5	3.3	3.8	3.1	0.1	-0.5	3.5	-1.9	-0.7
2019		-1.9	2.0	4.6	2.4	2.7	0.6	3.5	-0.6	0.5	2.3	2.3	0.0
2020		-4.0	-2.3	-2.6	-3.0	-3.4	-11.4	-0.5	-2.2	-0.5	-2.6	-4.6	-0.3
2021(d)		3.9	-1.9	5.7	1.7	1.6	4.7	0.7	1.1	1.0	1.2	3.7	0.1
2019	IV	-3.8	2.0	0.3	2.5	2.4	-0.5	3.4	-0.8	0.3	3.8	-7.7	-1.4
2020	I	-6.5	2.2	-0.3	1.4	1.2	-2.2	2.4	-0.9	0.2	1.6	-1.8	-0.4
	II	-5.7	-4.4	-8.4	-6.2	-7.0	-21.1	-1.9	-4.0	-1.2	-4.3	-15.8	-1.5
	III	-2.0	-4.5	-1.6	-3.5	-4.1	-13.0	-0.8	-2.5	-0.5	-3.3	-4.8	-0.2
	IV	-1.5	-2.5	-0.3	-3.6	-3.6	-9.0	-1.7	-1.5	-0.6	-4.3	4.8	1.1
2021	I	1.7	-4.6	-1.3	-2.3	-2.8	-7.5	-1.2	-1.2	-0.6	-1.9	-5.3	-0.4
	II	6.2	0.9	13.3	6.0	6.3	19.2	2.6	2.7	2.7	4.4	14.1	1.1
	III	4.2	1.5	3.5	5.1	5.0	13.0	2.5	1.8	1.5	4.9	1.6	-0.4

(a) Percentage of employees with temporary contract over total employees. (b) Percentage of part-time employed over total employed. (c) Average of available data. (d) Change of existing data over the same period last year.

Source: INE (Labour Force Survey).

Chart 11b.1 - Employment by sector

Annual percentage changes

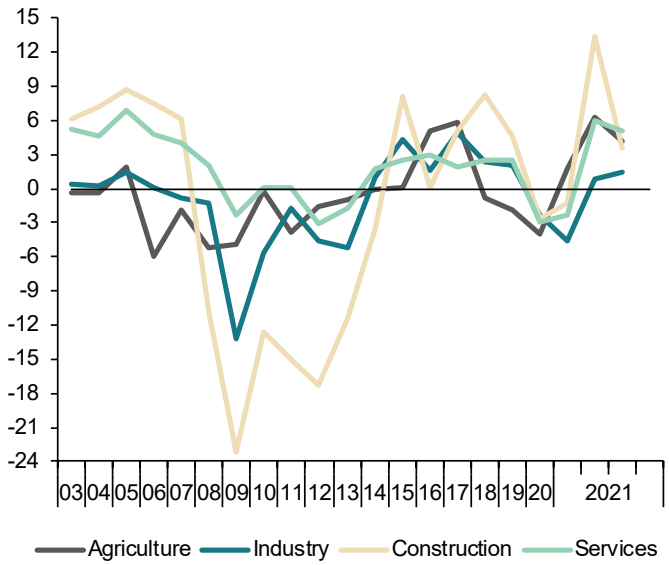


Chart 11b.2 - Employment by type of contract

Annual percentage changes and percentage over total employees

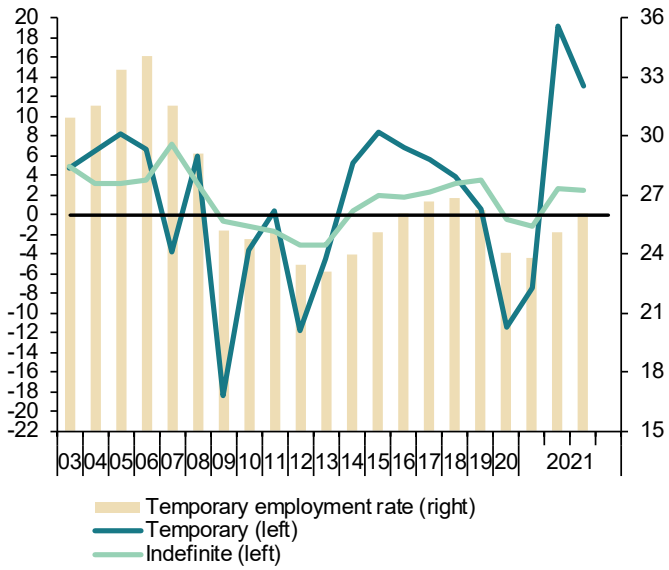


Table 12

Index of Consumer Prices

Forecasts in yellow

		Total	Total excluding food and energy	Excluding unprocessed food and energy				Unprocessed food	Energy	Food
				Total	Non-energy industrial goods	Services	Processed food			
% of total in 2020		100.00	62.46	80.14	24.07	38.40	17.68	9.14	10.72	26.82
Indexes, 2016 = 100										
2015		100.2	99.2	99.2	99.5	98.9	99.2	97.7	109.4	98.7
2016		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2017		102.0	101.1	101.1	100.2	101.6	100.7	102.6	108.0	101.3
2018		103.7	102.1	102.0	100.2	103.1	101.7	105.8	114.7	103.1
2019		104.4	103.0	102.9	100.4	104.6	102.2	107.8	113.2	104.0
2020		104.1	103.6	103.6	100.6	105.4	103.6	111.8	102.4	106.2
2021		107.1	104.2	104.3	101.2	105.9	104.7	113.9	123.6	107.7
2022		109.9	105.8	106.0	102.2	107.9	106.5	116.1	134.0	109.6
Annual percentage changes										
2015		-0.5	0.5	0.6	0.3	0.7	0.9	1.8	-9.0	1.2
2016		-0.2	0.8	0.8	0.5	1.1	0.8	2.3	-8.6	1.3
2017		2.0	1.1	1.1	0.2	1.6	0.7	2.6	8.0	1.3
2018		1.7	0.9	0.9	0.0	1.5	1.0	3.1	6.1	1.8
2019		0.7	1.0	0.9	0.3	1.4	0.5	1.9	-1.2	0.9
2020		-0.3	0.6	0.7	0.2	0.8	1.3	3.7	-9.6	2.1
2021		3.0	0.5	0.7	0.6	0.5	1.1	1.9	20.8	1.4
2022		2.6	1.5	1.6	1.0	1.9	1.7	2.0	8.4	1.8
2021	Jan	0.5	0.4	0.6	0.3	0.5	1.1	2.5	-1.8	1.6
	Feb	0.0	0.1	0.3	0.2	0.1	0.7	2.6	-4.2	1.4
	Mar	1.3	0.1	0.3	0.3	0.0	0.6	2.6	8.4	1.3
	Apr	2.2	-0.1	0.0	0.4	-0.4	0.3	0.2	21.4	0.3
	May	2.7	0.1	0.2	0.5	-0.1	0.2	1.4	24.0	0.6
	Jun	2.7	0.1	0.2	0.7	-0.3	0.7	1.4	23.5	0.9
	Jul	2.9	0.4	0.6	0.4	0.5	1.0	2.4	20.7	1.5
	Aug	3.3	0.5	0.7	0.6	0.6	1.2	2.6	23.5	1.6
	Sep	4.0	0.8	1.0	0.7	0.9	1.5	1.6	28.8	1.6
	Oct	5.4	1.2	1.4	0.9	1.4	2.0	0.9	39.5	1.6
	Nov	5.3	1.3	1.5	1.1	1.4	2.1	2.1	37.2	2.1
	Dec	5.1	1.4	1.6	1.1	1.6	2.3	2.5	33.3	2.4
2022	Jan	4.0	1.1	1.3	0.8	1.2	2.0	1.6	25.0	1.9
	Feb	4.8	1.3	1.4	0.9	1.5	2.0	1.9	31.7	2.0
	Mar	3.9	1.4	1.6	0.9	1.7	2.1	1.5	22.1	1.9
	Apr	3.4	1.6	1.7	0.9	2.0	1.9	1.7	15.4	1.8
	May	3.0	1.5	1.6	1.0	1.9	1.9	1.5	11.9	1.8
	Jun	2.7	1.6	1.7	1.0	2.0	1.9	2.2	8.1	2.0
	Jul	2.8	1.8	1.8	1.0	2.3	1.9	1.9	8.2	1.9
	Aug	2.4	1.9	1.9	1.0	2.5	1.8	1.2	5.4	1.6
	Sep	1.7	1.6	1.6	1.0	2.0	1.6	2.1	0.7	1.8
	Oct	0.7	1.4	1.4	1.0	1.7	1.2	2.6	-5.3	1.7
	Nov	0.8	1.5	1.4	1.0	1.7	1.2	2.6	-4.8	1.7
	Dec	0.9	1.5	1.4	1.1	1.8	1.2	2.6	-4.8	1.7

Source: INE and Funcas (Forecasts).

Chart 12.1 - Inflation rate (I)

Annual percentage changes

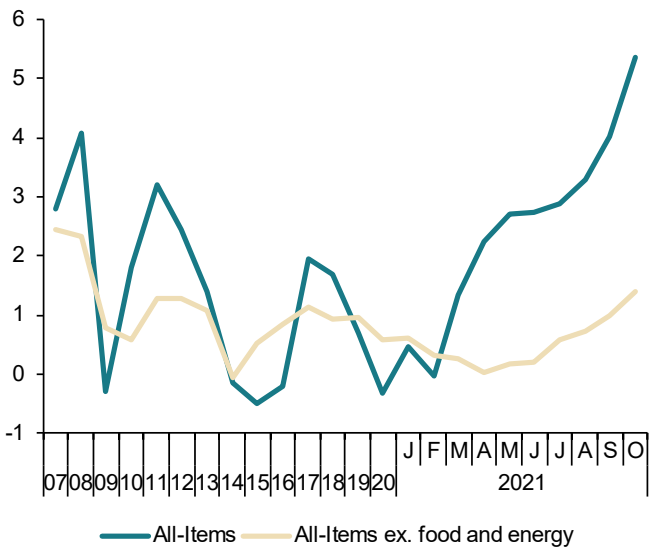


Chart 12.2 - Inflation rate (II)

Annual percentage changes

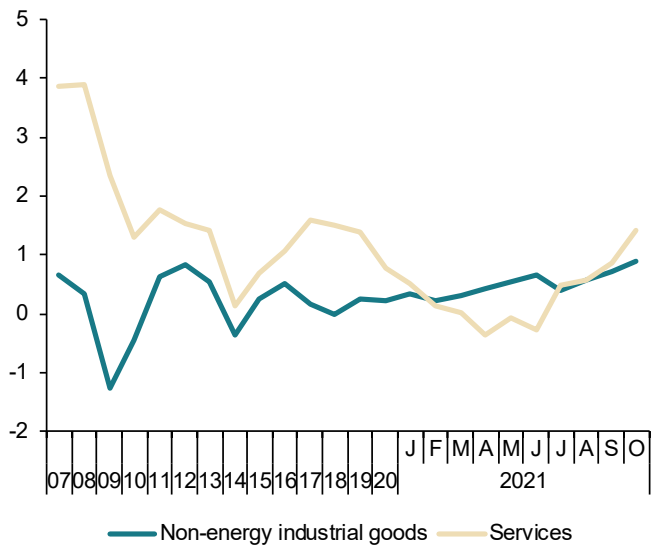


Table 13

Other prices and costs indicators

		GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increase agreed in collective bargaining
			Total	Excluding energy	Housing Price Index (INE)	m^2 average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
		2015=100	2015=100		2007=100			2000=100				
2013		99.7	103.5	100.5	64.3	72.7	55.1	143.8	141.1	152.2	155.2	--
2014		99.5	102.1	99.7	64.5	71.0	52.6	143.3	140.9	150.7	155.5	--
2015		100.0	100.0	100.0	66.8	71.7	54.9	144.2	142.5	149.6	156.5	--
2016		100.3	96.9	99.6	70.0	73.1	57.8	143.6	142.1	148.3	156.2	--
2017		101.6	101.1	101.9	74.3	74.8	58.2	144.0	142.3	149.1	156.2	--
2018		102.9	104.1	103.0	79.3	77.4	57.3	145.4	143.8	150.6	158.6	--
2019		104.2	103.6	103.2	83.3	79.8	57.7	148.7	146.4	155.7	162.7	--
2020		105.4	99.2	103.1	85.0	78.9	52.3	145.4	142.6	154.1	173.3	--
2021 (b)		107.0	110.8	109.0	86.5	79.6	53.6	151.8	148.8	161.3	167.2	--
2019	IV	105.4	102.8	103.0	83.8	80.4	56.5	155.7	155.4	156.6	171.2	--
2020	I	104.9	101.4	103.5	84.7	79.8	58.9	145.3	141.5	156.7	158.6	--
	II	105.6	96.3	102.6	84.8	78.3	50.1	138.1	135.1	147.2	180.2	--
	III	106.4	99.2	102.8	85.7	78.8	49.3	142.7	139.2	153.5	174.1	--
	IV	106.5	99.9	103.6	85.0	78.9	51.0	155.5	154.4	159.1	180.5	--
2021	I	106.2	104.0	106.2	85.4	79.0	49.0	147.3	142.9	160.8	163.5	--
	II	106.7	110.3	109.5	87.5	80.2	58.3	156.4	154.6	161.8	170.9	--
	III (b)	108.0	118.1	111.4	--	--	--	--	--	--	--	--
2021	Jul	--	114.7	110.9	--	--	--	--	--	--	--	--
	Aug	--	116.8	111.3	--	--	--	--	--	--	--	--
	Sep	--	122.9	111.9	--	--	--	--	--	--	--	--
		Annual percent changes (c)										
2013		0.4	0.6	0.7	-10.6	-5.8	-15.7	0.2	0.0	0.6	0.3	0.5
2014		-0.2	-1.3	-0.8	0.3	-2.4	-4.6	-0.3	-0.1	-1.0	0.2	0.5
2015		0.5	-2.1	0.3	3.6	1.1	4.3	0.6	1.1	-0.7	0.6	0.7
2016		0.3	-3.1	-0.4	4.7	1.9	5.3	-0.4	-0.3	-0.8	-0.2	1.0
2017		1.3	4.4	2.3	6.2	2.4	0.8	0.2	0.1	0.5	0.0	1.4
2018		1.2	3.0	1.1	6.7	3.4	-1.6	1.0	1.0	1.0	1.5	1.8
2019		1.3	-0.4	0.1	5.1	3.2	0.7	2.2	1.9	3.4	2.6	2.3
2020		1.1	-4.3	0.0	2.1	-1.1	-9.4	-2.2	-2.6	-1.0	6.5	1.9
2021 (d)		1.3	12.0	5.9	2.1	0.7	-1.6	7.2	7.5	6.1	-1.3	1.6
2019	IV	1.3	-2.3	0.0	3.6	2.1	-0.2	2.3	1.8	4.0	2.7	2.3
2020	I	0.8	-2.7	0.4	3.2	0.3	2.8	0.8	0.7	1.0	4.2	2.0
	II	1.0	-7.7	-0.7	2.1	-1.7	-15.1	-8.3	-9.4	-5.0	12.3	2.0
	III	1.6	-3.9	-0.4	1.7	-1.1	-15.2	-1.1	-1.0	-1.6	4.3	1.9
	IV	1.0	-2.8	0.5	1.5	-1.8	-9.7	-0.1	-0.7	1.6	5.4	1.9
2021	I	1.2	2.6	2.6	0.9	-0.9	-16.9	1.4	1.0	2.6	3.1	1.6
	II	1.1	14.5	6.7	3.3	2.4	16.3	13.2	14.4	9.9	-5.2	1.6
	III (e)	1.5	19.0	8.4	--	--	--	--	--	--	--	1.5
2021	Aug	--	17.9	8.4	--	--	--	--	--	--	--	1.5
	Sep	--	23.6	8.8	--	--	--	--	--	--	--	1.5
	Oct	--	--	--	--	--	--	--	--	--	--	1.5

(a) Seasonally adjusted. (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Growth of the average of available months over the monthly average of the previous quarter.

Sources: M. of Public Works, M. of Labour and INE (National Statistics Institute).

Chart 13.1 - Housing and urban land prices

Index (2007=100)

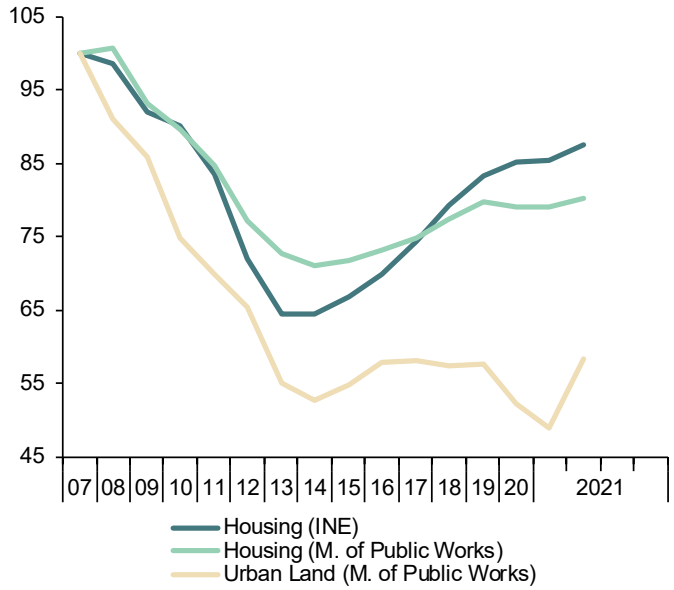


Chart 13.2 - Wage costs

Annual percent change

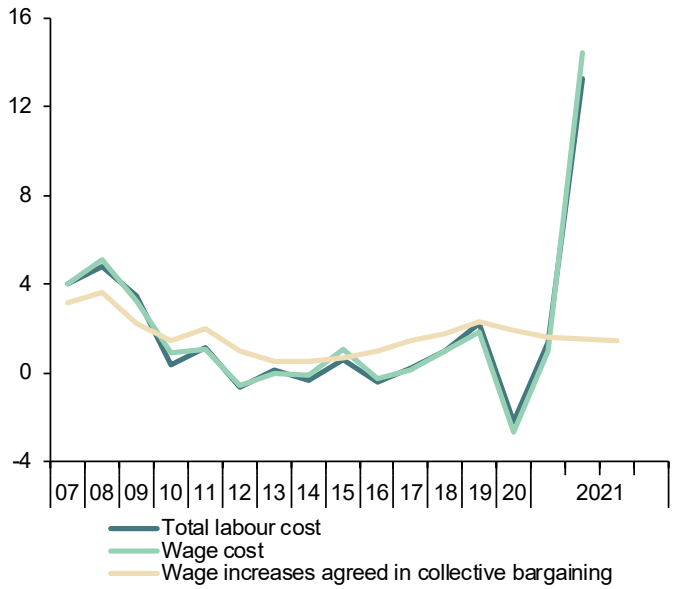


Table 14

External trade (a)

		Exports of goods			Imports of goods			Exports to EU countries (monthly average)	Exports to non-EU countries (monthly average)	Total Balance of goods (monthly average)	Balance of goods excluding energy (monthly average)	Balance of goods with EU countries (monthly average)
		Nominal	Prices	Real	Nominal	Prices	Real					
		2005=100			2005=100			EUR Billions				
2014		155.2	109.4	141.9	114.0	107.3	106.3	11.4	8.7	-2.1	1.1	0.4
2015		161.2	110.1	146.5	118.0	104.6	112.9	12.0	8.9	-2.1	0.2	0.2
2016		165.4	108.2	153.0	117.5	101.3	116.1	12.5	8.8	-1.4	0.3	0.4
2017		178.2	108.9	163.7	129.8	106.1	122.4	13.6	9.5	-2.2	0.0	0.6
2018		184.0	112.1	164.2	137.2	110.9	123.8	14.1	9.7	-2.9	-0.3	0.7
2019		187.7	112.9	166.3	138.4	110.8	125.0	14.3	9.9	-2.6	-0.3	0.8
2020		168.5	112.1	150.6	117.9	107.4	109.5	13.2	8.6	-1.1	0.3	1.3
2021(b)		200.3	118.6	168.9	140.8	114.8	122.6	15.5	9.7	-1.4	0.3	2.0
2019	III	186.7	112.5	166.0	139.8	109.5	127.7	14.0	10.0	-3.1	-0.9	0.3
	IV	186.3	114.3	163.0	134.6	113.1	119.0	14.0	9.8	-2.1	0.1	0.9
2020	I	176.6	113.4	155.8	129.7	111.1	116.7	13.6	9.0	-2.4	-0.1	0.9
	II	140.7	111.6	126.1	96.2	104.7	91.8	11.0	7.1	-0.6	0.2	1.7
	III	175.9	110.5	159.2	119.8	105.5	113.5	13.8	8.7	-0.6	0.7	1.5
	IV	181.4	112.5	161.3	124.4	107.4	115.8	14.0	9.3	-0.8	0.4	1.2
2021	I	187.4	115.2	162.7	129.8	110.6	117.3	14.9	9.2	-1.1	0.7	1.7
	II	208.7	119.3	174.8	145.9	115.8	125.9	16.4	10.3	-1.4	0.5	1.9
2021	Jun	205.5	120.7	170.3	145.8	116.2	125.5	16.3	10.0	-1.9	0.0	2.0
	Jul	205.6	123.0	167.1	146.6	118.8	123.4	16.4	9.9	-2.0	0.3	2.3
	Aug	208.3	121.5	171.4	153.1	119.6	128.0	16.4	10.3	-2.9	-0.3	2.2
		Percentage changes (c)								Percentage of GDP		
2014		2.0	-0.9	3.0	5.2	-2.3	7.7	3.5	-0.4	-2.4	1.3	1.0
2015		3.8	0.6	3.2	3.5	-2.5	6.1	5.3	1.8	-2.3	0.2	0.2
2016		2.6	-1.7	4.4	-0.4	-3.1	2.8	4.7	-0.1	-1.6	0.3	0.4
2017		7.7	0.7	7.0	10.5	4.7	5.5	8.3	6.9	-2.3	0.0	0.7
2018		3.3	3.0	0.3	5.7	4.5	1.2	3.9	2.5	-2.9	-0.3	0.7
2019		2.0	0.7	1.3	0.9	-0.1	0.9	1.8	2.2	-2.5	-0.3	0.8
2020		-10.2	-0.7	-9.5	-14.8	-3.1	-12.4	-8.2	-13.1	-1.2	0.3	1.4
2021(d)		22.1	5.7	15.5	21.6	6.7	14.0	24.3	18.7	--	--	--
2019	III	-4.8	0.7	-5.4	-1.8	-0.8	-1.0	-5.7	-3.4	-11.8	-3.4	1.2
	IV	-0.2	1.6	-1.8	-3.7	3.4	-6.8	0.6	-1.3	-8.1	0.5	3.4
2020	I	-5.2	-0.8	-4.4	-3.7	-1.8	-1.9	-2.9	-8.5	-9.8	-0.6	3.6
	II	-20.3	-1.6	-19.1	-25.8	-5.7	-21.3	-19.5	-21.7	-2.7	1.0	8.2
	III	25.0	-1.0	26.2	24.5	0.7	23.7	25.7	24.0	-2.5	2.7	6.4
	IV	3.2	1.8	1.3	3.8	1.8	2.0	1.3	6.1	-3.2	1.7	5.0
2021	I	3.3	2.4	0.9	4.4	3.0	1.3	6.3	-1.3	-4.4	2.9	7.3
	II	11.3	3.6	7.5	12.4	4.7	7.3	10.5	12.7	-5.9	2.0	7.7
2021	Jun	-2.8	1.0	-3.8	0.0	0.6	-0.7	-0.8	-5.9	--	--	--
	Jul	0.1	1.9	-1.8	0.5	2.3	-1.7	0.7	-0.9	--	--	--
	Aug	1.3	-1.2	2.6	4.5	0.7	3.8	0.1	3.2	--	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data. (d) Growth of available period over the same period of the previous year.

Source: Ministry of Economy.

Chart 14.1 - External trade (real)

Annual percent change

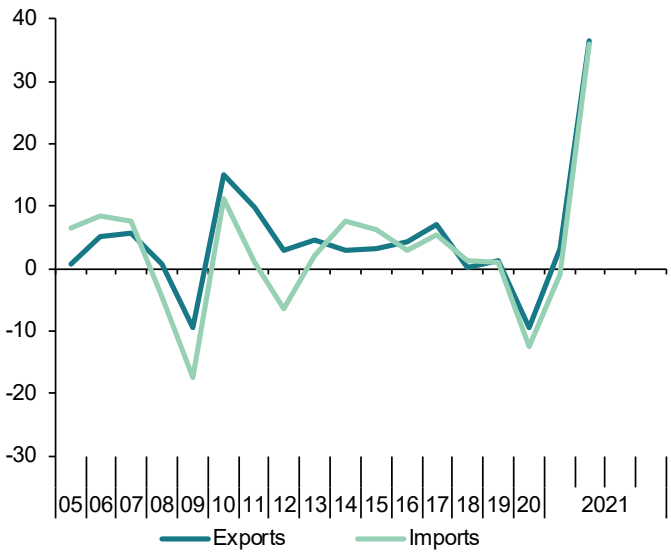


Chart 14.2 - Trade balance

EUR Billions, moving sum of 12 months

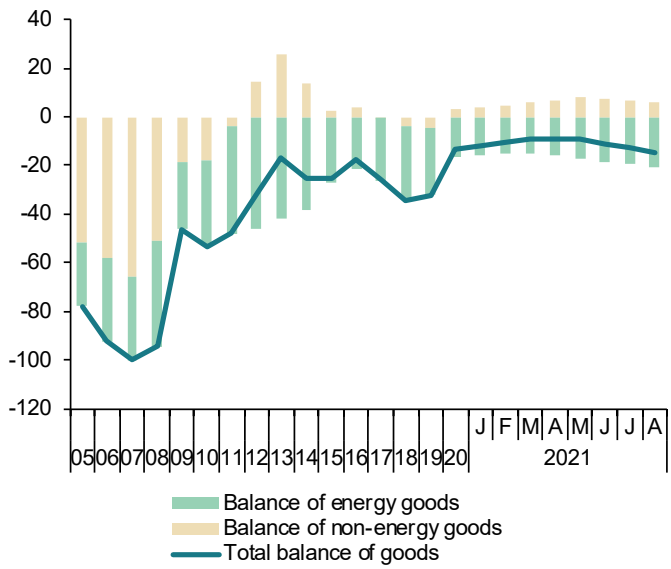


Table 15

Balance of Payments (according to IMF manual)

(Net transactions)

		Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
		Total	Goods	Services	Primary Income	Secondary Income			Financial account, excluding Bank of Spain					Bank of Spain	
									Total	Direct investment	Porfolio investment	Other investment	Financial derivatives		
		1=2+3+4+5	2	3	4	5	6	7=1+6	8=9+10+11+12	9	10	11	12	13	14
EUR billions															
2014		17.54	-21.26	53.25	-3.79	-10.67	4.54	22.08	-10.00	10.68	-2.67	-19.03	1.01	27.14	-4.94
2015		21.83	-20.68	53.44	-0.24	-10.69	6.98	28.80	69.47	30.07	-5.16	40.75	3.81	-40.79	-0.12
2016		35.37	-14.28	58.70	2.75	-11.80	2.43	37.80	89.49	11.19	46.65	29.09	2.57	-54.02	-2.34
2017		32.21	-22.04	63.93	0.44	-10.13	2.84	35.05	68.01	12.46	25.08	22.74	7.72	-32.63	0.33
2018		22.61	-29.31	62.00	1.73	-11.81	5.81	28.42	46.64	-16.87	15.13	49.43	-1.05	-14.25	3.98
2019		26.19	-26.76	63.22	2.69	-12.96	4.22	30.40	10.48	6.62	-48.01	59.42	-7.55	14.82	-5.11
2020		9.25	-9.09	25.62	6.59	-13.87	4.47	13.72	98.22	19.60	53.67	32.05	-7.09	-80.98	3.53
2021	(a)	2.06	-2.99	10.31	2.06	-7.31	3.34	5.41	26.21	-20.76	19.09	26.04	1.84	-17.41	3.40
2019	III	8.67	-9.25	21.50	-0.11	-3.46	0.55	9.22	18.82	-3.73	11.84	9.34	1.37	-7.02	2.57
	IV	7.60	-5.94	13.30	2.88	-2.64	2.06	9.66	17.67	2.21	4.03	11.45	-0.02	-4.49	3.52
2020	I	0.16	-6.17	8.94	1.33	-3.95	0.74	0.90	46.43	-2.76	31.55	15.79	1.86	-43.40	2.13
	II	1.99	0.51	3.72	0.30	-2.54	0.73	2.71	1.76	5.14	-3.72	-3.26	3.60	5.62	4.67
	III	2.12	-2.71	7.55	0.10	-2.82	0.90	3.02	13.58	7.95	4.64	-0.98	1.98	-0.54	10.03
	IV	4.99	-0.73	5.41	4.86	-4.56	2.10	7.09	6.23	2.14	-7.38	11.19	0.28	5.70	4.84
2021	I	-0.76	-1.54	3.77	0.92	-3.91	0.68	-0.08	2.10	-4.56	3.66	1.33	1.67	-3.00	-0.83
	II	2.82	-1.46	6.54	1.14	-3.41	2.66	5.48	24.11	-16.20	15.43	24.71	0.16	-14.40	4.22
			Goods and Services		Primary and Secondary Income										
	Jun	0.64	1.75		-1.11		1.38	2.02	0.00	-2.78	-16.47	18.87	0.39	1.65	-0.37
	jul	2.49	4.10		-1.61		0.97	3.46	-0.53	0.28	8.98	-9.34	-0.45	2.37	-1.62
	Aug	0.98	2.00		-1.02		0.36	1.34	-5.79	-1.55	0.43	-5.01	0.34	10.97	3.84
Percentage of GDP															
2014		1.7	-2.1	5.2	-0.4	-1.0	0.4	2.1	-1.0	1.0	-0.3	-1.8	0.1	2.6	-0.5
2015		2.0	-1.9	5.0	0.0	-1.0	0.6	2.7	6.4	2.8	-0.5	3.8	0.4	-3.8	0.0
2016		3.2	-1.3	5.3	0.2	-1.1	0.2	3.4	8.0	1.0	4.2	2.6	0.2	-4.9	-0.2
2017		2.8	-1.9	5.5	0.0	-0.9	0.2	3.0	5.9	1.1	2.2	2.0	0.7	-2.8	0.0
2018		1.9	-2.4	5.2	0.1	-1.0	0.5	2.4	3.9	-1.4	1.3	4.1	-0.1	-1.2	0.3
2019		2.1	-2.2	5.1	0.2	-1.0	0.3	2.4	0.8	0.5	-3.9	4.8	-0.6	1.2	-0.4
2020		0.8	-0.8	2.3	0.6	-1.2	0.4	1.2	8.8	1.7	4.8	2.9	-0.6	-7.2	0.3
2021	(a)	0.4	-0.5	1.8	0.4	-1.3	0.6	0.9	4.5	-3.6	3.3	4.5	0.3	-3.0	0.6
2019	III	2.8	-3.0	7.0	0.0	-1.1	0.2	3.0	6.2	-1.2	3.9	3.1	0.4	-2.3	0.8
	IV	2.3	-1.8	4.1	0.9	-0.8	0.6	3.0	5.4	0.7	1.2	3.5	0.0	-1.4	1.1
2020	I	0.1	-2.1	3.1	0.5	-1.4	0.3	0.3	16.0	-1.0	10.9	5.5	0.6	-15.0	0.7
	II	0.8	0.2	1.5	0.1	-1.0	0.3	1.1	0.7	2.0	-1.5	-1.3	1.4	2.2	1.9
	III	0.8	-1.0	2.7	0.0	-1.0	0.3	1.1	4.8	2.8	1.6	-0.3	0.7	-0.2	3.6
	IV	1.7	-0.2	1.8	1.6	-1.5	0.7	2.4	2.1	0.7	-2.5	3.7	0.1	1.9	1.6
2021	I	-0.3	-0.5	1.3	0.3	-1.4	0.2	0.0	0.8	-1.6	1.3	0.5	0.6	-1.1	-0.3
	II	0.9	-0.5	2.2	0.4	-1.1	0.9	1.8	8.1	-5.4	5.2	8.3	0.1	-4.8	1.4

(a) Period with available data.
Source: Bank of Spain.

Chart 15.1 - Balance of payments: Current and capital accounts

EUR Billions, 12-month cumulated

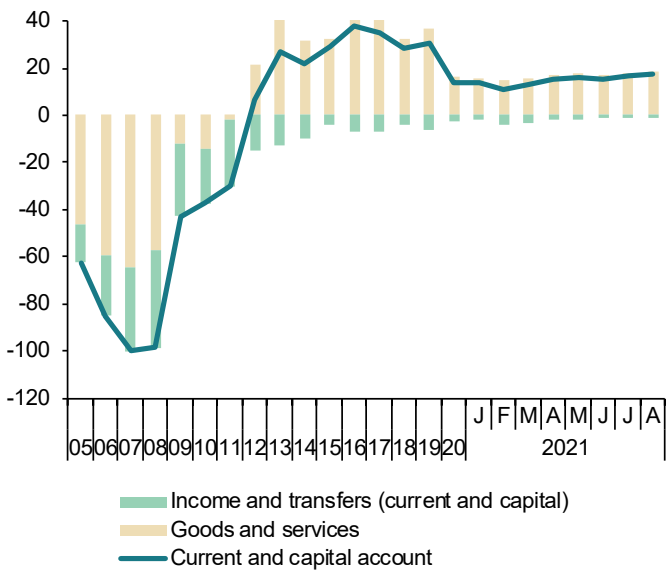


Chart 15.2 - Balance of payments: Financial account

EUR Billions, 12-month cumulated

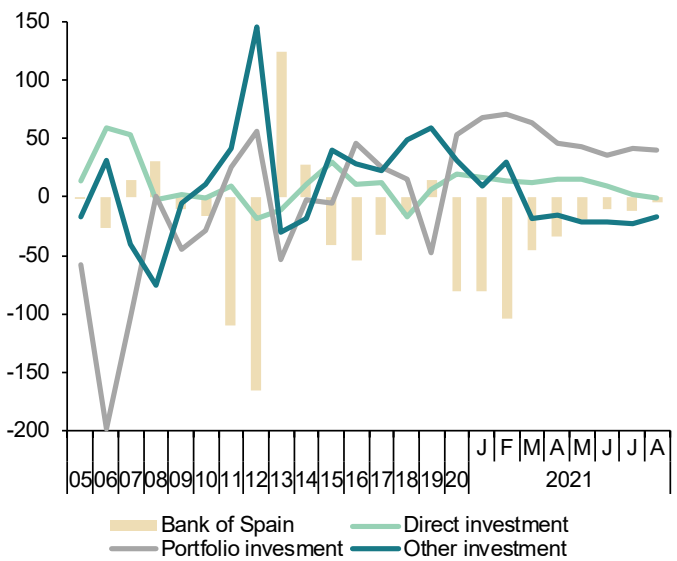


Table 16

Competitiveness indicators in relation to EMU

		Relative Unit Labour Costs in manufacturing (Spain/Rest of EMU) (a)			Harmonized Consumer Prices			Producer prices			Real Effective Exchange Rate in relation to developed countries
		Relative hourly wages	Relative hourly productivity	Relative ULC	Spain	EMU	Spain/EMU	Spain	EMU	Spain/EMU	
		1998=100			2015=100			2015=100			1999 I =100
2014		102.2	99.8	102.5	100.6	100.0	100.7	102.1	102.8	99.3	112.2
2015		99.4	100.0	99.3	100.0	100.0	100.0	100.0	100.0	100.0	107.8
2016		98.1	96.8	101.3	99.7	100.3	99.4	96.9	97.9	98.9	108.0
2017		97.7	96.5	101.3	101.7	101.8	99.9	101.2	100.7	100.5	109.7
2018		97.0	94.9	102.3	103.5	103.6	99.9	103.8	103.3	100.4	110.5
2019		96.6	95.9	100.7	104.3	104.8	99.5	103.4	103.7	99.8	109.1
2020		94.6	96.8	97.7	103.9	105.1	98.9	99.8	101.2	98.6	108.5
2021 (b)		--	--	--	106.3	107.3	99.1	110.0	107.8	102.0	108.7
2019	IV	--	--	--	105.0	105.3	99.6	102.8	103.4	99.5	108.9
2020	I	--	--	--	103.6	104.7	98.9	101.6	102.8	98.8	107.7
	II	--	--	--	104.5	105.5	99.1	97.3	99.9	97.4	108.6
	III	--	--	--	103.4	105.1	98.4	99.7	100.6	99.2	108.2
	IV	--	--	--	104.1	105.0	99.1	100.4	101.4	99.0	109.3
2021	I	--	--	--	104.1	105.8	98.4	104.1	104.1	100.1	108.2
	II	--	--	--	106.9	107.4	99.5	109.5	107.2	102.2	109.5
	III	--	--	--	106.9	108.0	99.0	116.2	112.1	103.7	108.3
2021	Aug	--	--	--	106.7	108.0	98.8	115.2	111.7	103.1	108.0
	Sep	--	--	--	107.9	108.5	99.4	120.1	113.9	105.4	109.0
	Oct	--	--	--	109.6	109.4	100.2	--	--	--	--
		Annual percentage changes					Differential	Annual percentage changes		Differential	Annual percentage changes
2014		-1.7	0.2	-1.9	-0.2	0.4	-0.6	-1.3	-1.5	0.2	-1.1
2015		-2.8	0.3	-3.1	-0.6	0.0	-0.6	-2.0	-2.8	0.8	-3.9
2016		-1.3	-3.2	2.0	-0.3	0.3	-0.6	-3.1	-2.1	-1.0	0.2
2017		-0.4	-0.3	0.0	2.0	1.5	0.5	4.5	2.8	1.7	1.5
2018		-0.7	-1.7	1.0	1.7	1.7	0.0	2.5	2.6	-0.1	0.8
2019		-0.5	1.1	-1.6	0.8	1.2	-0.4	-0.3	0.3	-0.6	-1.3
2020		-2.0	0.9	-3.0	-0.3	0.3	-0.6	-3.3	-2.5	-0.8	0.5
2021 (c)		--	--	--	2.4	2.1	0.3	10.1	6.5	3.6	0.5
2019	IV	--	--	--	0.5	1.0	-0.5	-1.8	-0.9	-0.9	-1.4
2020	I	--	--	--	0.7	1.1	-0.4	-2.1	-1.2	-0.9	-1.1
	II	--	--	--	-0.6	0.2	-0.8	-6.5	-3.8	-2.7	-1.1
	III	--	--	--	-0.6	0.0	-0.6	-3.3	-2.8	-0.5	-0.3
	IV	--	--	--	-0.8	-0.3	-0.5	-2.3	-2.0	-0.3	0.4
2021	I	--	--	--	0.5	1.1	-0.6	2.5	1.2	1.3	0.4
	II	--	--	--	2.3	1.8	0.5	12.5	7.3	5.2	0.9
	II	--	--	--	3.4	2.8	0.6	16.5	11.5	5.0	0.1
2021	Aug	--	--	--	3.3	3.0	0.3	15.7	11.1	4.6	-0.3
	Sep	--	--	--	4.0	3.4	0.6	20.1	13.1	7.0	0.1
	Oct	--	--	--	5.4	4.1	1.3	--	--	--	--

(a) EMU excluding Ireland and Spain. (b) Period with available data. (c) Growth of available period over the same period of the previous year.
Sources: Eurostat, Bank of Spain and Funcas.

Chart 16.1 - Relative Unit Labour Costs in manufacturing (Spain/Rest of EMU)

1998=100

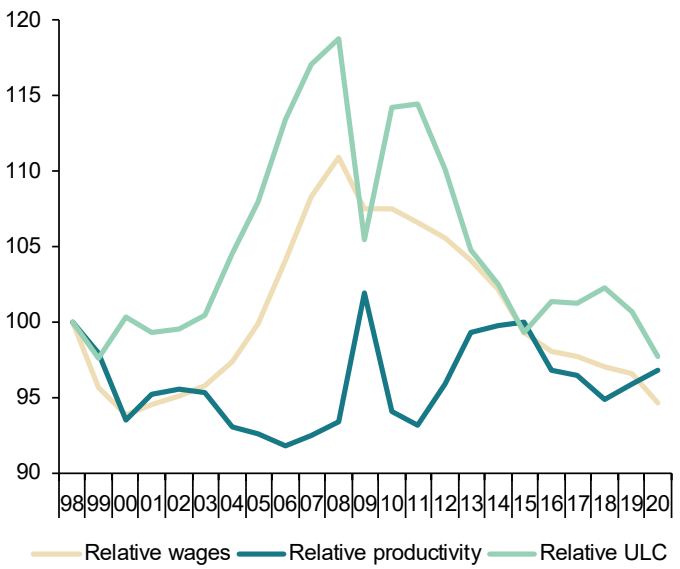


Chart 16.2 - Harmonized Consumer Prices

Annual growth in % and percentage points

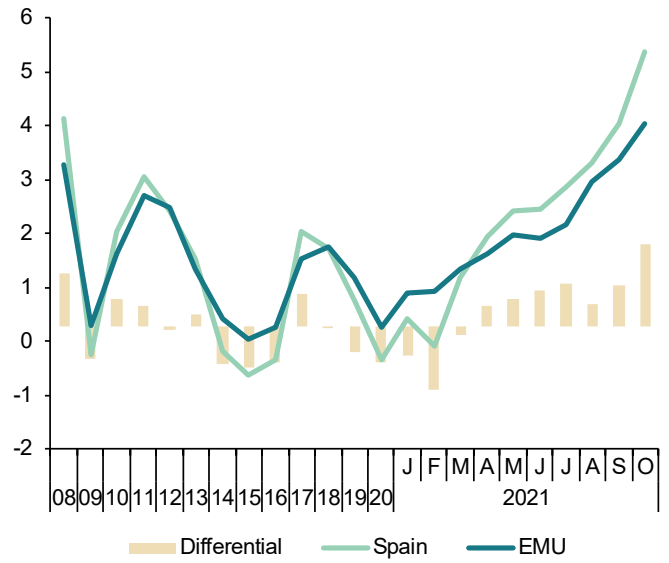


Table 17a

Imbalances: International comparison (I)

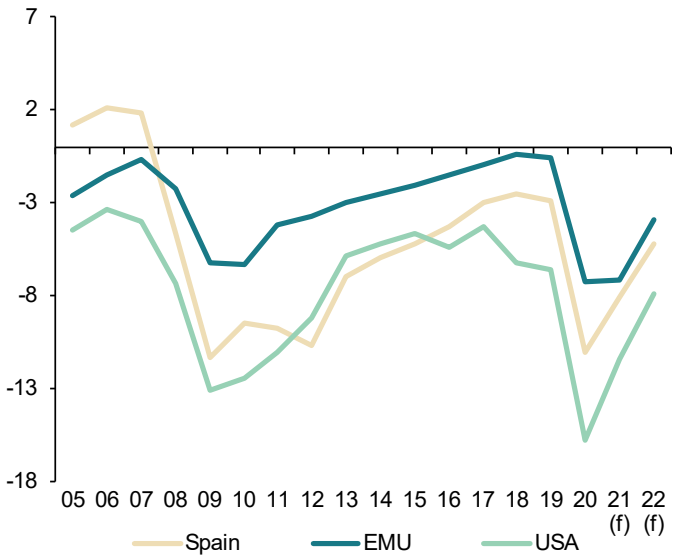
(In yellow: European Commission Forecasts)

	Government net lending (+) or borrowing (-)			Government consolidated gross debt			Current Account Balance of Payments (National Accounts)		
	Spain	EMU	USA	Spain	EMU	USA	Spain	EMU	USA
					Billions of national currency				
2008	-50.7	-208.0	-1,084.5	440.6	6,700.8	10,844.6	-98.8	-49.1	-704.2
2009	-120.6	-578.3	-1,896.6	569.5	7,440.5	12,535.2	-43.7	64.9	-383.1
2010	-102.2	-598.3	-1,863.1	649.2	8,199.1	14,316.3	-39.2	59.1	-439.8
2011	-103.6	-416.1	-1,709.1	743.0	8,658.8	15,518.1	-29.0	88.5	-460.3
2012	-110.7	-366.2	-1,493.3	889.9	9,114.9	16,740.3	0.9	230.0	-423.9
2013	-71.8	-300.4	-977.3	977.3	9,429.4	17,597.5	20.8	285.1	-352.1
2014	-61.1	-251.0	-910.4	1,039.4	9,674.6	18,328.2	17.5	320.1	-376.2
2015	-55.8	-208.7	-837.2	1,070.1	9,792.7	19,089.9	21.8	359.2	-424.7
2016	-48.0	-159.7	-1,003.6	1,104.6	9,973.5	19,986.4	35.4	390.5	-403.7
2017	-35.3	-104.5	-839.2	1,145.1	10,052.2	20,642.2	32.2	414.5	-372.9
2018	-30.0	-50.6	-1,282.7	1,173.4	10,153.5	21,972.3	22.6	417.7	-440.3
2019	-35.8	-77.1	-1,419.1	1,188.8	10,240.3	23,188.6	26.2	371.0	-479.8
2020	-122.9	-821.7	-3,291.5	1,345.8	11,323.2	26,531.3	9.3	300.8	-587.1
2021	-96.1	-869.1	-2,615.2	1,436.7	12,167.3	29,623.6	4.0	379.5	-819.9
2022	-66.7	-503.1	-1,936.9	1,509.4	12,662.4	31,566.2	10.6	408.9	-883.5
					Percentage of GDP				
2008	-4.6	-2.2	-7.3	39.7	69.6	73.4	-8.9	-0.5	-4.8
2009	-11.3	-6.2	-13.1	53.3	80.2	86.6	-4.1	0.7	-2.6
2010	-9.5	-6.3	-12.4	60.5	86.0	95.1	-3.7	0.6	-2.9
2011	-9.7	-4.2	-11.0	69.9	88.4	99.5	-2.7	0.9	-3.0
2012	-10.7	-3.7	-9.2	86.3	92.7	103.0	0.1	2.3	-2.6
2013	-7.0	-3.0	-5.8	95.8	94.9	104.5	2.0	2.9	-2.1
2014	-5.9	-2.5	-5.2	100.7	95.1	104.4	1.7	3.1	-2.1
2015	-5.2	-2.0	-4.6	99.3	93.1	104.9	2.0	3.4	-2.3
2016	-4.3	-1.5	-5.4	99.2	92.2	106.9	3.2	3.6	-2.2
2017	-3.0	-0.9	-4.3	98.6	89.6	106.0	2.8	3.7	-1.9
2018	-2.5	-0.4	-6.2	97.5	87.5	107.0	1.9	3.6	-2.1
2019	-2.9	-0.6	-6.6	95.5	85.5	108.5	2.1	3.1	-2.2
2020	-11.0	-7.2	-15.8	120.0	99.3	127.0	0.8	2.6	-2.8
2021	-8.1	-7.1	-11.4	120.6	100.0	129.3	0.3	3.1	-3.6
2022	-5.2	-3.9	-7.9	118.2	97.9	128.6	0.8	3.2	-3.6

Source: European Commission Forecasts, Autumn 2021,

Chart 17a.1 - Government deficit

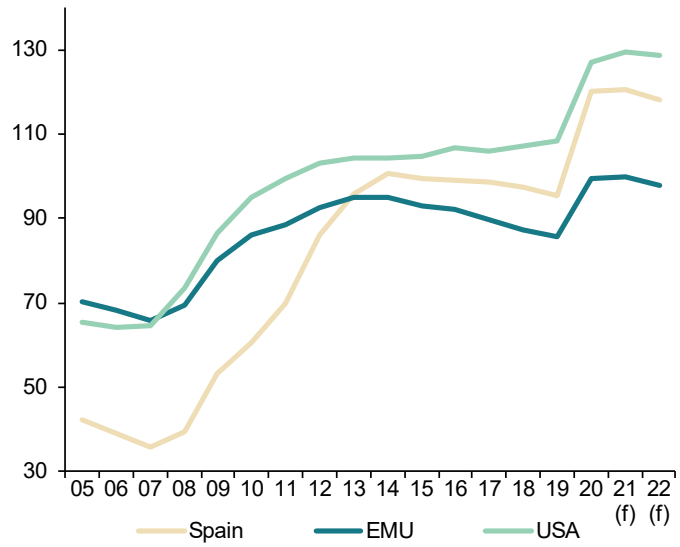
Percentage of GDP



(f) European Commission forecast.

Chart 17a.2 - Government gross debt

Percentage of GDP



(f) European Commission forecast.

Table 17b

Imbalances: International comparison (II)

	Household debt (a)			Non-financial corporations debt (a)		
	Spain	EMU	USA	Spain	EMU	USA
	Billions of national currency					
2005	656.2	4,771.4	12,116.4	954.1	7,273.3	8,180.4
2006	783.5	5,193.1	13,421.5	1,171.9	7,914.9	9,000.5
2007	879.3	5,561.2	14,351.4	1,371.6	8,673.8	10,136.0
2008	916.7	5,774.0	14,219.4	1,460.0	9,363.5	10,709.6
2009	908.9	5,880.7	14,057.4	1,473.5	9,458.0	10,192.0
2010	905.2	6,021.5	13,865.9	1,498.0	9,696.1	10,059.0
2011	877.9	6,104.5	13,735.3	1,458.3	10,085.7	10,294.2
2012	840.9	6,097.0	13,667.7	1,339.2	10,245.9	10,837.3
2013	793.6	6,057.7	13,900.0	1,267.9	10,273.1	11,350.4
2014	757.8	6,064.6	14,018.7	1,203.7	10,645.3	12,119.4
2015	733.3	6,127.9	14,191.1	1,183.7	11,194.0	12,929.1
2016	718.5	6,232.8	14,601.8	1,166.5	11,534.4	13,585.7
2017	711.0	6,395.1	15,147.0	1,146.6	11,711.1	14,546.4
2018	709.6	6,582.3	15,602.6	1,138.0	12,014.1	15,513.1
2019	708.6	6,809.2	16,100.7	1,150.1	12,386.6	16,266.6
2020	701.3	7,000.7	16,717.0	1,199.3	12,812.5	17,706.3
	Percentage of GDP					
	Percentage of GDP					
2005	70.8	56.5	92.9	102.9	86.1	62.7
2006	78.0	58.4	97.1	116.7	89.0	65.1
2007	81.8	59.2	99.2	127.5	92.4	70.0
2008	82.6	60.0	96.3	131.6	97.3	72.5
2009	85.0	63.4	97.1	137.8	102.0	70.4
2010	84.4	63.2	92.1	139.6	101.7	66.8
2011	82.5	62.3	88.0	137.1	103.0	66.0
2012	81.6	62.0	84.1	129.9	104.2	66.7
2013	77.8	61.0	82.5	124.3	103.4	67.4
2014	73.4	59.6	79.9	116.6	104.6	69.1
2015	68.0	58.2	77.9	109.8	106.4	71.0
2016	64.5	57.6	78.1	104.7	106.7	72.7
2017	61.2	57.0	77.8	98.7	104.4	74.7
2018	59.0	56.7	76.0	94.6	103.5	75.6
2019	56.9	56.8	75.3	92.4	103.3	76.1
2020	62.5	61.4	80.0	106.9	112.4	84.7

(a) Loans and debt securities.

Sources: Eurostat and Federal Reserve.

Chart 17b.1 - Household debt

Percentage of GDP

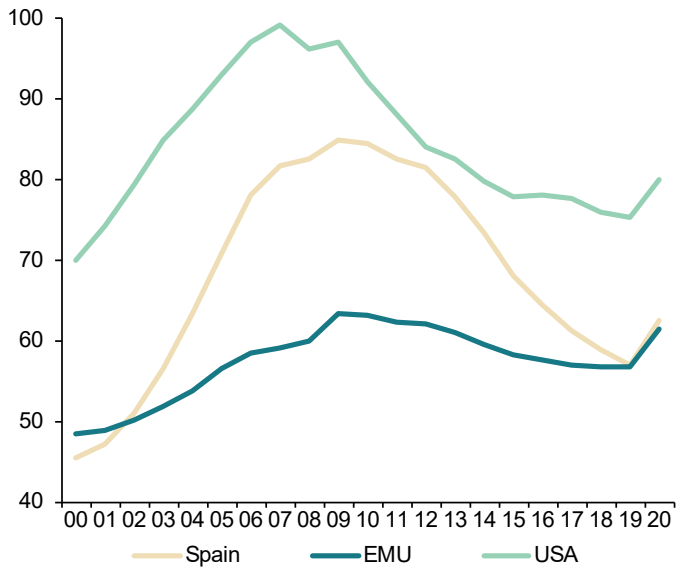
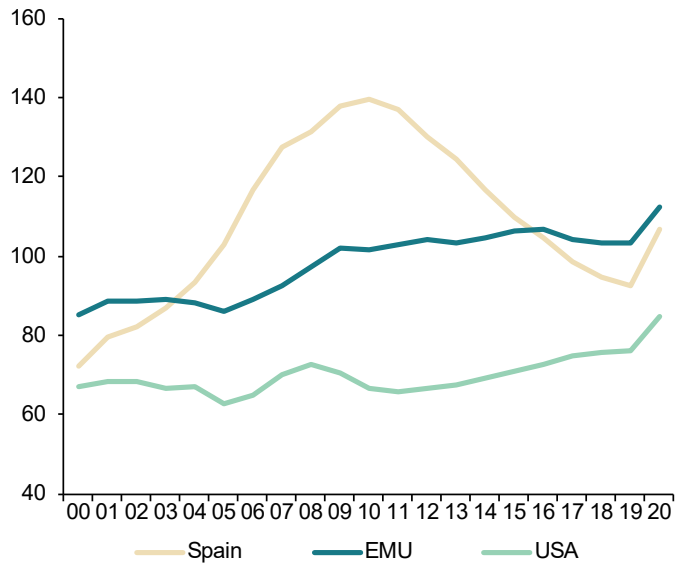


Chart 17b.2 - Non-financial corporations debt

Percentage of GDP



50 Financial System Indicators

Updated: November 15th, 2021

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-0.9	August 2021
Other resident sectors' deposits in credit institutions (monthly average % var.)	0.1	August 2021
Doubtful loans (monthly % var.)	-0.3	August 2021
Recourse to the Eurosystem L/T (Eurozone financial institutions, million euros)	2,208,653	October 2021
Recourse to the Eurosystem L/T (Spanish financial institutions, million euros)	289,482	October 2021
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main refinancing operations	34	October 2021
"Operating expenses/gross operating income" ratio (%)	57.96	June 2021
"Customer deposits/employees" ratio (thousand euros)	11,620.24	June 2021
"Customer deposits/branches" ratio (thousand euros)	100,175.86	June 2021
"Branches/institutions" ratio	109.02	June 2021

A. Money and Interest Rates

Indicator	Source	Average 2001-2018	2019	2020	2021 October	2021 November 15	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.1	5.0	12.3	-	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	1.5	-0.383	-0.545	-0.553	-0.562	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	1.9	-0.249	-0.499	-0.455	-0.473	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	3.6	0.6	0.03	0.5	0.4	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	3.9	-	-	-	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": The ECB has announced that monetary policy will continue to be expansionary, but it has also slowed down the path of the pandemic bond-buying program. Relatedly, the Fed started its tapering in November. Interbank rates slightly decreased in the first half of November. The 1-year interbank rate went from -0.455% in October to -0.473% by November 15th, and the 3-month Euribor decreased from -0.553% to -0.562% over the same period. As for the Spanish 10-year bond yield, it fell to 0.4%.

B. Financial Markets

Indicator	Source	Average 2001-2018	2019	2020	2021 July	2021 August	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	22.1	288.7	28.8	30.47	20.37	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	19.8	87.2	18.5	13.48	11.56	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	0.5	0.01	0.34	0.04	0.00	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	0.6	1.2	0.63	0.30	0.43	(Traded amount/outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	0.5	-0.54	-0.54	-0.62	-0.63	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	727.5	1,311.87	1,289.02	-	-	Outright transactions in the market (not exclusively between account holders)
12. Madrid Stock Exchange Capitalization (monthly average % chg.)	Bank of Spain and Madrid Stock Exchange	0.1	1.2	-0.6	-0.74	2.02	Change in the total number of resident companies
13. Stock market trading volume. Stock trading volume (monthly average % var.)	Bank of Spain and Madrid Stock Exchange	2.6	-7.4	10.7	-26.17	-16.47	Stock market trading volume. Stock trading volume: change in total trading volume
14. Madrid Stock Exchange general index (Dec 1985=100)	Bank of Spain and Madrid Stock Exchange	1,007.1	881.6	718.9	857.6	895.8 (a)	Base 1985=100
15. Ibex-35 (Dec 1989=3000)	Bank of Spain and Madrid Stock Exchange	9,703.6	8,812.9	7,347.3	8,675.7	9,095.7 (a)	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/profitability)	Bank of Spain and Madrid Stock Exchange	15.6	13.2	15.1	15.5	13.4 (a)	Madrid Stock Exchange Ratio "share value/ capital profitability"
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange		-		-	-	Variation for all stocks

B. Financial Markets (continued)

Indicator	Source	Average 2001-2018	2019	2020	2021 July	2021 August	Definition and calculation
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF		-		-	-	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF		-		-	-	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	0.9	-14.4	5.1	7.2	-15.8	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	12.9	30	35.4	-35.70	-44.4	IBEX-35 shares concluded transactions

(a) Last data published: November 15th, 2021.

Comment on "Financial Markets": The stock market was on an upward trend in the first half of November, despite inflation pressures and rising energy prices. The IBEX-35 increased to 9,096 points and the General Index of the Madrid Stock Exchange rose to 896. During August (last month available), there was a decrease in transactions of outright spot T-bills to 20.37 and a fall of spot government bonds transactions to 11.56. There was a decrease in Ibex-35 futures of 15.8%, while options fell by 44.4%.

C. Financial Saving and Debt

Indicator	Source	Average 2008-2018	2019	2020	2021 Q1	2021 Q2	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-1.4	2.5	1.2	1.1	1.3	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	1.7	2.2	7.1	7.9	4.5	Difference between financial assets and financial liabilities flows over GDP
24. Debt in securities (other than shares) and loans/GDP (National Economy)	Bank of Spain	270.1	282.0	335.3	340.1	332.1	Public debt. non-financial companies debt and households and non-profit institutions debt over GDP
25. Debt in securities (other than shares) and loans/GDP (Households and non-profit institutions)	Bank of Spain	63.7	56.9	62.5	62.8	61.4	Households and non-profit institutions debt over GDP
26. Households and non-profit institutions balance: financial assets (quarterly average % chg.)	Bank of Spain	0.5	5.9	1.8	1.8	2.8	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average % chg.)	Bank of Spain	-1.2	0.3	0.3	-0.6	2.1	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During 2021Q2. financial savings to GDP in the overall economy decreased by 1.3% of GDP. There was an increase in the financial savings rate of households of 4.5%. The debt to GDP ratio of the economy reached 332.1%. Finally, there was an increase in the stock of financial assets on households' balance sheets of 2.8% and of 2.1% in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source	Average 2001-2017	2018	2019	2021 July	2021 August	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	6.1	-4.7	0.2	0.9	-0.9	Lending to the private sector percentage change for the sum of banks, savings banks and credit unions.
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	7.0	0.7	0.3	-1.5	0.1	Deposits percentage change for the sum of banks, savings banks and credit unions.
30. Debt securities (monthly average % var.)	Bank of Spain	9.95	-0.9	-0.3	-4.5	-2.1	Asset-side debt securities percentage change for the sum of banks, savings banks and credit unions.
31. Shares and equity (monthly average % var.)	Bank of Spain	9.3	-8.8	0.5	-0.7	0.2	Asset-side equity and shares percentage change for the sum of banks, savings banks and credit unions.
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	-2.2	-0.6	-1.6	0.6	0.9	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end).
33. Doubtful loans (monthly average % var.)	Bank of Spain	-0.3	-2.3	-1.7	-0.9	-0.3	Doubtful loans. Percentage change for the sum of banks, savings banks and credit unions.
34. Assets sold under repurchase (monthly average % var.)	Bank of Spain	2.6	-1.4	-1.1	-14.8	-0.6	Liability-side assets sold under repurchase. Percentage change for the sum of banks, savings banks and credit unions.
35. Equity capital (monthly average % var.)	Bank of Spain	7.8	-4.1	0.3	-0.1	0.6	Equity percentage change for the sum of banks, savings banks and credit unions.

Comment on "Credit institutions. Business Development": The latest available data as of August show a decrease in bank credit to the private sector of 0.9%. Data also show an increase in financial institutions' deposit-taking of 0.1%. Holdings of debt securities fell 2.1%. Doubtful loans fell by 0.3 % compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source	Average 2000-2018	2019	2020	2021 March	2021 June	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	179	114	113	112	112	Total number of banks, savings banks and credit unions operating in Spanish territory
37. Number of foreign credit institutions operating in Spain	Bank of Spain	76	81	78	79	79	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	231,976	176,838	175,185	-	175,185 (a)	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	37,607	23,851	22,589	21,612	20,823	Total number of branches in the banking sector
40. Recourse to the Eurosystem: long term (total Eurozone financial institutions) (Euro millions)	Bank of Spain	371,551	642,118	1,774,798	1,874,392	2,208,653 (b)	Open market operations and ECB standing facilities. Eurozone total
41. Recourse to the Eurosystem: long term (total Spanish financial institutions) (Euro millions)	Bank of Spain	79,421	132,611	260,971	268,741	289,482 (b)	Open market operations and ECB standing facilities. Spain total
42. Recourse to the Eurosystem (total Spanish financial institutions): main refinancing operations (Euro millions)	Bank of Spain	26,049	102	3	3	34 (b)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: December 2020.

(b) Last data published: October 2021.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In October 2021, recourse to Eurosystem funding by Spanish credit institutions reached 289.5 billion euros.

MEMO ITEM: From January 2015 the ECB also offers information on the asset purchase programs. The amount borrowed by Spanish banks in these programs reached 571 billion euros in August 2021 and 4.4 trillion euros for the entire Eurozone banking system.

F. Credit institutions. Efficiency and Productivity, Risk and Profitability

Indicator	Source	Average 2000-2018	2019	2020	2021 Q1	2021 Q2	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	49.11	53.30	54.90	53.94	57.96	Operational efficiency indicator. Numerator and denominator are obtained directly from credit institutions´ P&L accounts
44. "Customer deposits/ employees" ratio (Euro thousands)	Bank of Spain	4,219.37	9,574.38	11,173.92	11,353.55	11,620.24	Productivity indicator (business by employee)
45. "Customer deposits/ branches" ratio (Euro thousands)	Bank of Spain	27,149.27	74,450.04	89,952.10	94,303.53	100,175.86	Productivity indicator (business by branch)

F. Credit institutions. Efficiency and Productivity, Risk and Profitability (continued)

Indicator	Source	Average 2000-2017	2018	2019	2020 Q4	2021 Q1	Definition and calculation
46. "Branches/institutions" ratio	Bank of Spain	194.96	123.09	116.74	113.15	109.02	Network expansion indicator
47. "Employees/branches" ratio	Bank of Spain	6.24	7.7	8.1	7.7	8.6	Branch size indicator
48. "Equity capital" (monthly average % var.)	Bank of Spain	0.04	0.25	-2.4	-2.3	-0.7	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.43	0.59	0.4	0.3	0.4	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	5.78	6.96	-0.7	3.6	5.9	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": During 2021Q2, there was a relative increase in the profitability of Spanish banks after the worst effects of COVID-19.

Social Indicators

Table 1

Population

Population										
	Total population	Average age	65 and older (%)	Life expectancy at birth (men)	Life expectancy at birth (women)	Dependency rate	Dependency rate (older than 64)	Foreign-born population (%)	New entries (foreign-born)	New exits (born in Spain)
2008	46,157,822	40.8	16.5	78.2	84.3	47.5	24.5	13.1	701,997	33,053
2010	47,021,031	41.1	16.9	79.1	85.1	48.6	25.0	14.0	441,051	39,211
2012	47,265,321	41.6	17.4	79.4	85.1	50.4	26.1	14.3	344,992	51,666
2014	46,771,341	42.1	18.1	80.1	85.7	51.6	27.4	13.4	368,170	66,803
2015	46,624,382	42.4	18.4	79.9	85.4	52.4	28.0	13.2	417,655	74,873
2016	46,557,008	42.7	18.6	80.3	85.8	52.9	28.4	13.2	492,600	71,508
2017	46,572,132	42.9	18.8	80.4	85.7	53.2	28.8	13.3	592,604	63,754
2018	46,722,980	43.1	19.1	80.5	85.9	53.6	29.3	13.7	715,255	56,745
2019	47,026,208	43.3	19.3	80.9	86.2	53.7	29.6	14.4	827,052	61,338
2020	47,450,795	43.6	19.4	79.6	85.1	53.5	29.8	15.2	523,618	41,708
2021●	47,344,649	43.8	19.7			53.4	30.2	15.4		
Sources	EPC	EPC	EPC	ID INE	ID INE	EPC	EPC	EPC	EVR	EVR

ID INE: Indicadores Demográficos INE.

EPC: Estadística del Padrón Continuo.

EVR: Estadística de Variaciones Residenciales.

Dependency rate: (15 or less years old population + 65 or more years old population)/ 16-64 years old population, as a percentage.

Dependency rate (older than 64): 65 or more years old population/ 16-64 years old population, as a percentage.

● *Provisional data.*

Table 2

Households and families

	Households				Nuptiality					
	Households (thousands)	Average household size	Households with one person younger than 65 (%)	Households with one person older than 65 (%)	Marriage rate (Spanish)	Marriage rate (foreign population)	Divorce rate	Mean age at first marriage, men	Mean age at first marriage, women	Same sex marriages (%)
2008	16,742	2.71	12.0	10.2	8.5	8.4	2.39	32.4	30.2	1.62
2010	17,174	2.67	12.8	9.9	7.2	7.9	2.21	33.2	31.0	1.87
2012	17,434	2.63	13.7	9.9	7.2	6.7	2.23	33.8	31.7	2.04
2014	18,329	2.51	14.2	10.6	6.9	6.5	2.17	34.4	32.3	2.06
2015	18,376	2.54	14.6	10.7	7.3	6.5	2.08	34.8	32.7	2.26
2016	18,444	2.52	14.6	10.9	7.5	6.8	2.08	35.0	32.9	2.46
2017	18,512	2.52	14.2	11.4	7.4	7.0	2.11	35.3	33.2	2.67
2018	18,581	2.51	14.3	11.5	7.1	6.6	2.04	35.6	33.4	2.90
2019	18,697	2.52	14.9	11.2	7.1	6.7	1.95	36.0	33.9	3.90●
2020	18,794	2.52	15.0	11.4	3.8	4.1				
2021■	18,895	2.51								
Sources	LFS	LFS	EPF	EPF	ID INE	ID INE	ID INE	ID INE	ID INE	MNP

Table 2 (Continued)

Households and families

	Fertility					
	Median age at first child, women	Total fertility rate (Spanish women)	Total fertility rate (Foreign women)	Births to single mothers (%)	Abortion rate	Abortion by Spanish-born women (%)
2008	29.3	1.36	1.83	33.2	11.8	55.6
2010	29.8	1.30	1.68	35.5	11.5	58.3
2012	30.3	1.27	1.56	39.0	12.0	61.5
2014	30.6	1.27	1.62	42.5	10.5	63.3
2015	30.7	1.28	1.66	44.4	10.4	65.3
2016	30.8	1.27	1.72	45.8	10.4	65.8
2017	30.9	1.25	1.71	46.8	10.5	66.1
2018	31.0	1.20	1.65	47.3	11.1	65.3
2019	31.1	1.17	1.59	48.4	11.5	64.1
2020	31.2	1.12	1.45			
Sources	ID INE	ID INE	ID INE	ID INE	MSAN	MSAN

LFS: Labour Force Survey. EPF: Encuesta de Presupuestos Familiares. ID INE: Indicadores Demográficos INE. MNP: Movimiento Natural de la Población. MSAN: Ministerio de Sanidad, Servicios Sociales e Igualdad.

Marriage rate: Number of marriages per thousand population.

Total fertility rate: The average number of children that would be born per woman living in Spain if all women lived to the end of their childbearing years and bore children according to a given fertility rate at each age.

Divorce rate: Number of divorces per thousand population.

Abortion rate: Number of abortions per thousand women (15-44 years).

● *Provisional data.*

■ *Data refer to January-September.*

Table 3

Education

	Educational attainment				Students involved in non-compulsory education					Education expenditure	
	Population 16 years and older with primary education (%)	Population 30-34 with primary education (%)	Population 16 years and older with with tertiary education (%)	Population 30-34 with tertiary education (%)	Pre-primary education	Secondary education	Vocational training	Under-graduate students	Post-graduate studies (except doctorate)	Public expenditure (thousands of €)	Public expenditure (% GDP)
2008	32.1	9.2	16.1	26.9	1,763,019	629,247	472,604	1,377,228	50,421	51,716,008	4.63
2010	30.6	8.6	17.0	27.7	1,872,829	672,213	555,580	1,445,392	104,844	53,099,329	4.91
2012	28.5	7.5	17.8	26.6	1,912,324	692,098	617,686	1,450,036	113,805	46,476,414	4.47
2014	24.4	6.1	27.2	42.3	1,840,008	690,738	652,846	1,364,023	142,156	44,846,415	4.32
2015	23.3	6.6	27.5	40.9	1,808,322	695,557	641,741	1,321,698	171,043	46,597,784	4.31
2016	22.4	6.6	28.1	40.7	1,780,377	687,595	652,471	1.303.252	190,143	47,578,997	4.25
2017	21.4	6.6	28.5	41.2	1,767,179	676,311	667,984	1,287,791	209,754	49,458,049	4.24
2018	20.5	6.4	29.2	42.4	1,750,106	667,287	675,971	1,290,455	217,840	50.807.185	4.23
2019	19.3	6.3	30.3	44.7	1,747,087	673,171	714,292	1.309.791●	234.214●	53,052,700	4.26
2020	17.7	6.1	31.3	44.8							
2021■	16.5	5.8	32.3	46.4							
Sources	LFS	LFS	LFS	LFS	MECD	MECD	MECD	MECD	MECD	MECD	INE National Accounts

LFS: Labor Force Survey.

MECD: Ministerio de Educación, Cultura y Deporte.

INE: Instituto Nacional de Estadística.

● *Provisional data.*

■ *Data refer to January-September.*

Table 4

Social protection: Benefits

	Contributory benefits*							Non-contributory benefits			
		Retirement		Permanent disability		Widowhood			Social Security		
	Unemployment total	Total	Average amount (€)	Total	Average amount (€)	Total	Average amount (€)	Unemployment	Retirement	Disability	Other
2008	1,100,879	4,936,839	814	906,835	801	2,249,904	529	646,186	265,314	199,410	63,626
2010	1,471,826	5,140,554	884	933,730	850	2,290,090	572	1,445,228	257,136	196,159	49,535
2012	1,381,261	5,330,195	946	943,296	887	2,322,938	602	1,327,027	251,549	194,876	36,310
2014	1,059,799	5,558,964	1000	929,484	916	2,348,388	624	1,221,390	252,328	197,303	26,842
2015	838,392	5,641,908	1,021	931,668	923	2,353,257	631	1,102,529	253,838	198,891	23,643
2016	763,697	5,731,952	1,043	938,344	930	2,364,388	638	997,192	254,741	199,762	21,350
2017	726,575	5,826,123	1,063	947,130	936	2,360,395	646	902,193	256,187	199,120	19,019
2018	751,172	5,929,471	1,091	951,838	946	2,359,931	664	853,437	256,842	196,375	16,472
2019	807,614	6,038,326	1,138	957,500	975	2,361,620	712	912,384	259,570	193,122	14,997
2020	1,828,489	6,094,447	1,162	952,704	985	2,352,680	725	1,017,429	261,325	188,670	13,373
2021	967,997■	6,152,204■	1,188■	949,085■	994■	2,353,057■	739■	989,205■	261,865◆	185,086◆	12,176◆
Sources	INEM	INSS	INSS	INSS	INSS	INSS	INSS	INEM	IMSERSO	IMSERSO	IMSERSO

INEM: Instituto Nacional de Empleo.

INSS: Instituto Nacional de la Seguridad Social.

IMSERSO: Instituto de Mayores y Servicios Sociales.

** Benefits for orphans and dependent family members of deceased Social Security affiliates are excluded.*

■ *Data refer to January-September.*

◆ *Data refer to January-August.*

Table 5

Social protection: Health care

	Expenditure				Resources				Satisfaction*		Time on waiting list (days)	
	Total (% GDP)	Public (% GDP)	Total expenditure ($ per inhabitant)	Public expenditure (per inhabitant)	Medical specialists per 1,000 inhabitants	Primary care doctors per 1,000 people asigned	Specialist nurses per 1,000 inhabitants	Primary care nurses per 1,000 people asigned	With the working of the health system	With medical history and tracing by family doctor or pediatrician	Non-urgent surgical procedures	First specialist consultations per 1,000 inhabitants
2008	8.29	6.10	2,774	2,042	1.8	0.8	3.0	0.6	6.4	7.0	71	59
2010	9.01	6.74	2,886	2,157	1.8	0.8	3.2	0.6	6.6	7.3	65	53
2012	9.09	6.55	2,902	2,095	1.8	0.8	3.1	0.6	6.6	7.5	76	53
2014	9.08	6.36	3,057	2,140	1.8	0.8	3.1	0.7	6.3	7.5	87	65
2015	9.16	6.51	3,180	2,258	1.9	0.8	3.2	0.7	6.4	7.5	89	58
2016	8.98	6.34	3,248	2,293	1.9	0.8	3.3	0.6	6.6	7.6	115	72
2017	8.80	6.25	3,370	2,385	1.9	0.8	3.4	0.6	6.7	7.5	106	66
2018	8.90	6.20	3,323	2,341	2.0	0.8	3.5	0.7	6.6	7.5	129	96
2019	9.00	6.40	3,616	2,560		0.8		0.7			115	81
Sources	OECD	OECD	OECD	OECD	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS

OECD: Organisation for Economic Co-operation and Development.

INCLASNS: Indicadores clave del Sistema Nacional del Salud.

** Average of population satisfaction measured on a scale of 1 to 10, where 1 means "totally unsatisfactory" and 10 "totally satisfactory".*

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Notes

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